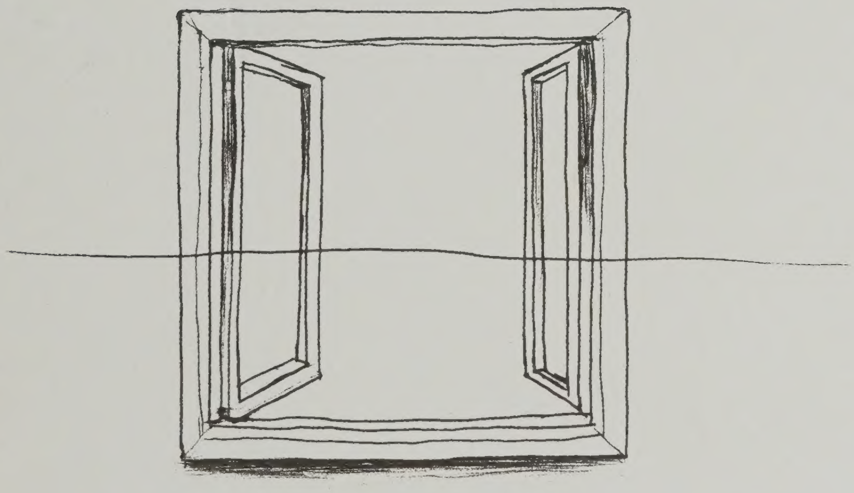
2002 Dundee Realty Corporation Annual Report

Perspectives



Toronto-based Dundee Realty Corporation, with over $1 billion in assets and over $290 million in annual revenue, is among Canada's leading providers of affordable business premises. Through innovative management and a conservative approach to financing, the Company has built a diversified portfolio of desirable high-quality space in the office, industrial and retail sectors totalling 11.3 million square feet. In addition, the Company develops land and housing in selected markets in Ontario, Western Canada and Colorado.

From the stable income of long-term leases to our steady focus on long-term value. From the right mix of people to the right base of properties. The achievements of Dundee Realty can be seen in many ways. And while our success is the result of a single-minded focus – to build a great real estate business – our strengths are best gauged from different points of view. From within and without. From many perspectives.

Tenant Perspective Well-located, affordable business premises. We've said it before but it bears repeating. In our buildings, our tenants find everything they need, receive the efficient service that they expect, and achieve substantial savings in rent. By running our business well, our tenants are free to focus on theirs.

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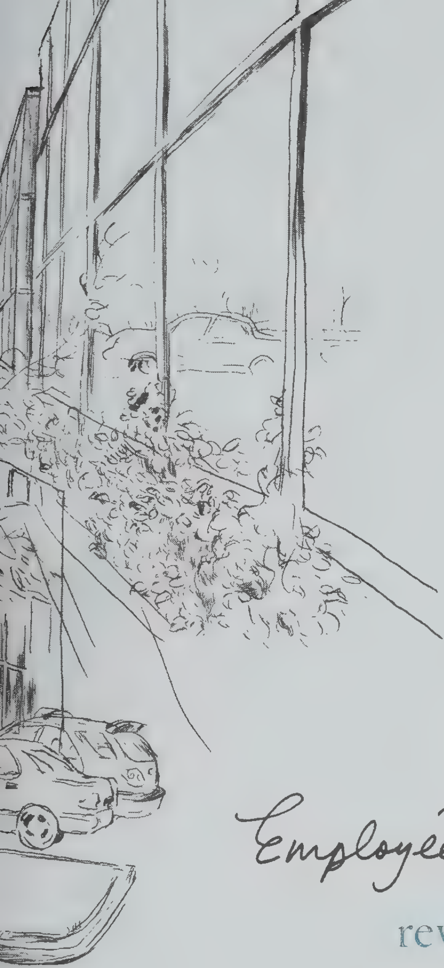
Industry Perspective They say that history repeats itself. Not today – not in real estate, anyway. The industry has learned from its mistakes of the early 90s. Businesses are now run much more conservatively. Today, they're well-positioned not only to operate through the challenging times, but to reward investors over the long term as well.

Shareholder Perspective In recent years, the capital markets have witnessed both the boom and the bust. In this same period, we have produced substantial revenue growth, earned and compounded historically high real returns, and increased our book value significantly. By investing in Dundee Realty, shareholders benefit from the ownership of a real estate portfolio that is diversified and reliable.


ROSLYN BUILDING
400 5TH AVE SW



Employee Perspective Our employees have rewarded us for the investment we've made in our human capital – placing us among the R.O.B. Best Companies to Work for in Canada. Employees of Dundee Realty realize that they are an integral component of our success. They have demonstrated confidence in our leadership team and believe in working together to provide a valuable product.

Financial Highlights

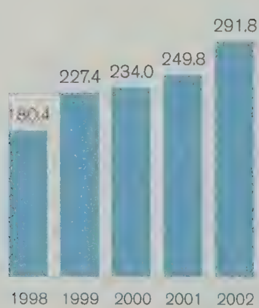
(all amounts in thousands, except per share amounts and ratios)

For the years ended December 31	2002	2001	2000	1999	1998
Financial position					
Revenue properties assets	**$ 885,521**	$ 909,805	$ 867,718	$ 877,523	$ 822,811
Total assets	**1,136,422**	1,118,171	1,107,962	1,107,926	1,069,897
Debt	**581,375**	558,064	550,652	556,293	506,949
Shareholders' equity	**437,111**	462,174	464,434	464,777	477,341
Operating results					
Revenue	**$ 291,804**	$ 249,786	$ 234,049	$ 227,370	$ 180,350
EBITDA(1)	**95,944**	87,080	84,300	76,637	63,297
Net income	**11,832**	33,069	15,261	13,177	17,643
Net income per share – diluted	**0.69**	1.71	0.73	0.58	0.88
Funds from operations(2)	**56,139**	48,779	43,517	41,564	37,326
Funds from operations per share – diluted	**3.28**	2.52	2.08	1.83	1.86
Common Shares					
Outstanding at year end	**15,439**	17,315	20,067	21,746	23,783
Weighted average outstanding					
Basic	**16,406**	18,865	20,642	22,416	16,735
Diluted	**17,131**	19,339	20,943	22,731	20,108
Ratios					
EBITDA coverage of interest expense	**2.59**	2.43	2.23	2.42	2.96
Percentage of floating rate debt	**13%**	17%	17%	16%	18%
Debt to equity	**1.33**	1.21	1.19	1.20	1.06
Share price at year end	**$ 15.45**	$ 13.50	$ 12.16	$ 11.68	$ 11.60

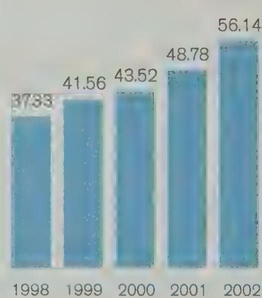
(1) Earnings before interest, taxes, depreciation and amortization.

(2) Net income, adjusted for future income tax, depreciation and amortization, and gain (loss) on sale and provision for diminution in value of assets.

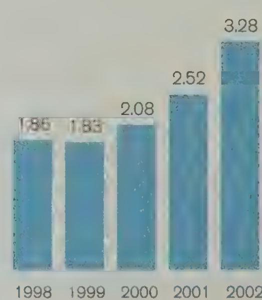
Gross Revenue
($ in millions)



FFO
($ in millions)



Diluted FFO per Share
($)



Financial Highlights – Quarterly

(all amounts in thousands, except per share amounts)
(quarterly amounts unaudited)

	2002	4Q2002	3Q2002	2Q2002	1Q2002
Operating results (in thousands)					
Revenue	$ 291,804	$ 80,404	$ 93,782	$ 58,116	$ 59,502
EBITDA	95,944	26,698	24,368	21,914	22,964
Net income	11,832	(5,721)	5,281	6,378	5,894
Funds from operations	56,139	16,143	14,065	12,454	13,477
Per share data					
Net income per share – basic	$ 0.72	$ (0.37)	$ 0.32	$ 0.38	$ 0.35
Net income per share – diluted	0.69	(0.35)	0.31	0.37	0.33
Funds from operations per share – basic	3.42	1.04	0.85	0.74	0.79
Funds from operations per share – diluted	3.28	1.00	0.82	0.71	0.76

	2001	4Q2001	3Q2001	2Q2001	1Q2001
Operating results (in thousands)					
Revenue	$ 249,786	$ 66,256	$ 58,503	$ 75,766	$ 49,261
EBITDA	87,080	23,696	19,633	24,318	19,433
Net income	33,069	5,531	15,197	6,265	6,076
Funds from operations	48,779	14,256	10,265	14,736	9,522
Per share data					
Net income per share – basic	$ 1.75	$ 0.32	$ 0.80	$ 0.32	$ 0.31
Net income per share – diluted	1.71	0.31	0.78	0.32	0.30
Funds from operations per share – basic	2.59	0.82	0.54	0.76	0.49
Funds from operations per share – diluted	2.52	0.79	0.53	0.74	0.48

Letter to Shareholders A great deal of uncertainty has dominated the marketplace over the past two years. It has created challenges for everyone, but also provided the stimulus for change. Last year at this time, in what seems like ages ago, we said that as a result of this environment the focus for many businesses had returned to the basics: competitive positioning, cost structures and profitability.

Dundee Realty is structured to withstand challenges better than ever before. We have a diversified portfolio, income guaranteed by long-term contracts and a moderate level of debt at low interest rates. We continue to produce impressive financial results, presenting ongoing growth in revenue, net operating income and funds from operations. This success is due, in large part, to our disciplined approach to the operation of our business.

We all recognize that the environment for revenue properties is weaker than we would like. In 2002, the commercial real estate industry experienced weakening demand and was faced with increasing vacancy rates. We were no exception. Our occupancy levels have softened, but they continue to outperform the industry average. One of our competitive advantages is that we have in-place rental rates that are about 14% below market rates, affording us the opportunity to capture uplifts in rents with renewals and new leasing. So, while we anticipate that occupancy rates will continue to soften somewhat in the first part of 2003, we are optimistic that our portfolio will still produce improved financial results.

In these uncertain times, the disciplined approach we have maintained with respect to running our business has ensured our growth and prosperity. Since our first full year of operations in 1996, our diluted funds from operations per share have increased at a compounded annual rate of return of 40%.

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From many perspectives, Dundee Realty has demonstrated impressive growth over our few short years. Total assets, revenue and book value have grown dramatically. Profit magazine has twice recognized our record-breaking growth. And, from a people perspective, our employees have helped place us on the Report on Business list of the 50 best companies to work for in Canada. However, the intrinsic value of our company is not reflected in our share price.

We have considered various strategic alternatives to help us close this perceived value gap for our stakeholders. We believe that the recent proposal to reorganize the structure of the Company will help us achieve the desired results. The proposal has been well received in the marketplace and, as a result, our share price has increased from $15.45 at year end to about $21.00. Provided our shareholders approve the reorganization, we are confident about the rewards that will follow.

As we turn the page on another chapter in the history of Dundee Realty, I would like to thank our Board of Directors for the benefit of their wisdom and experience, and for their steadfast support. I would also like to thank our employees. The success we have achieved and the recognition we have earned is the result of their diligence and dedication. They have embraced the changes included in our proposal with the confidence that it will bring an even greater future for everyone. We look forward to continuing our growth in the years to come and appreciate the continued support of our directors, employees and shareholders as we prepare to take advantage of the new opportunities that lie ahead.

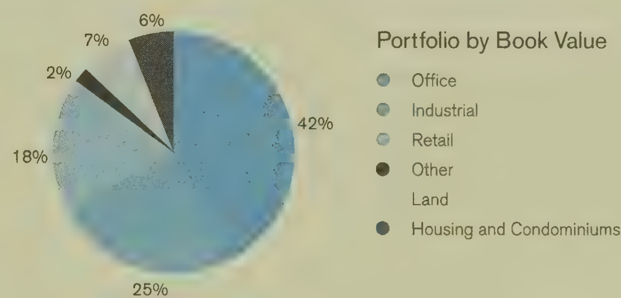
Michael J. Cooper
President and Chief Executive Officer

Management's Discussion and Analysis

INTRODUCTION

Based in Toronto, Ontario, Dundee Realty Corporation ("Dundee Realty" or "the Company") is a diversified company engaged in three different sectors of the real estate industry:

- Ownership and management of commercial revenue properties – 171 well-located office, suburban industrial and retail properties comprising approximately 11.3 million square feet;
- Land development – development of master planned residential communities and commercial sites; and
- Home and condominium construction.



Vision and Strategy

Our strategy is to increase shareholder value through managing, improving and adding to our real estate portfolio. The diversification of our properties by geographic location, asset type and asset class helps to minimize our risk exposure and provides stability to our results. We target a broad tenant base for our revenue producing properties that is not overly dependent on any single economic sector or any single tenant. In addition, we focus mainly on those asset classes in which we have a competitive advantage. 15

Generally, our investment strategy is long-term buy and hold. When we identify undervalued situations, we tend to exploit them opportunistically. We review all of our assets yearly to identify areas in which to invest to enhance value and to identify assets that no longer fit our long-term strategy. This year, we have further strengthened our cash position and mitigated our debt exposure by refinancing a significant portion of our debt, locking in at lower average interest rates and extending the average term to maturity.

Our portfolio is strong and our balance sheet is healthy; however, our share price is not reflective of the underlying value of the Company. As part of our approach, we evaluate all of our options relating to corporate structure and strategy on an ongoing basis. The Company has grown tremendously over the past seven years and although this is reflected in our asset base, book value and revenues, it is not apparent in our share price. To this end, in 1998, we began to repurchase and cancel our stock with the intention of capturing that value for our shareholders. Although the share price has been inching its way up, we have not achieved the results we feel are deserved. Therefore, we recently announced a proposal to reorganize the structure of the Company that we believe will help us achieve the desired results.

Overview of Core Businesses

Office Revenue Properties

Dundee Realty's core Canadian office markets are Montréal, Ottawa, Toronto, Calgary, Edmonton and Vancouver. In 2002, our office portfolio was reduced slightly in size to include ownership of 53 office buildings comprising approximately 3.6 million square feet.

We have an experienced team of leasing professionals who work diligently to ensure that our buildings remain full, and that we maintain good relationships in the brokerage community. For the year ended December 31, 2002, the occupancy rate in our office portfolio remained relatively high at 93.1%, well ahead of the national industry average of about 89.0%. In addition, maintaining and upgrading the quality of our assets is a priority not only for us but also for our current and prospective tenants.

Industrial Revenue Properties

We own a portfolio of 110 prime suburban industrial and flex space buildings comprising approximately 6.1 million square feet, concentrated in Montréal, Toronto, Calgary and Edmonton. Our strategy of owning clusters of properties helps us to respond to tenants' needs to adjust the size and functionality of their space during times of change in their operations and their workforce.

At the end of 2002, the average occupancy rate across our stabilized industrial portfolio was 93.3%, 1.5% behind the national industry average of about 94.8%.

Retail and Other Revenue Properties

Our core retail assets are Northgate Mall in Regina and Greenbriar Mall in Atlanta. These core assets comprise 1.1 million square feet of our total retail portfolio of approximately 1.6 million square feet. At year end, the portfolio had an occupancy rate of 92.7%.

We have long stated our intention to sell certain non-core assets as the right opportunities arise and redirect those funds into our core Canadian office and industrial portfolio. Pursuant to this strategy, three additional non-core retail properties were sold during the year. A fourth property was sold subsequent to year end.

The "other" category includes a hotel in Western Canada and a ski area operation in Colorado.

Land and Housing

The activities of the land and housing group are concentrated in Saskatoon, Regina, Calgary, Edmonton, Toronto and Beaver Creek (Colorado). The primary business of the land group is the acquisition and servicing of land for resale to residential and commercial developers. An important part of the mandate of the housing operation is to facilitate the sale of lots developed by the land division. The housing operation also constructs new homes on land developed by third parties. The Company develops major condominium projects in Toronto and Beaver Creek.

Property Management

Dundee Realty has approximately 14.1 million square feet of revenue properties under its management, including 11.3 million square feet of owned assets. Our focus is on providing our tenants with exceptional property management service. We place a priority on efficient, thorough and timely responses to tenant requests, and focus on meeting all of their real estate needs so that they may concentrate on operating their businesses.

Key activities and highlights in 2002 include:

- The increase in diluted funds from operations per share to $3.28, up 30.2% from 2001;
- The repurchase and cancellation of 1.9 million shares;
- The increase of fixed rate debt to 87% and renewal of 29% of total debt during a year of historically low interest rates; and
- The ranking of Dundee Realty as one of the Top 50 Companies to Work for in Canada by Report on Business Magazine.

DISCUSSION AND ANALYSIS

The following discussion and analysis of the consolidated financial position and results of operations is based primarily on the consolidated financial statements of the Company for the years ended December 31, 2002 and 2001. It should be read in conjunction with the consolidated financial statements and notes contained in this Annual Report.

All amounts in the following discussion are presented in thousands of dollars with the exception of square footage, unit volume, acreage, and number of common shares and per share amounts.

PERFORMANCE MEASUREMENT

Management believes that important measures of the Company's operating performance include funds from operations ("FFO") and, to a lesser degree, earnings before interest, taxes, depreciation and amortization ("EBITDA") and return on equity. FFO is defined as net income (computed in accordance with Canadian Generally Accepted Accounting Principles ("GAAP")) plus depreciation and amortization, plus deferred income taxes and excluding gains or losses from the sale and diminution in value of assets. This measurement is generally accepted as one of the most meaningful and useful measures of performance of real estate operations. It does not represent cash flow from operating activities as defined by GAAP, is not necessarily indicative of cash available to fund the Company's needs and should not be considered the only measure of liquidity. In addition, certain other companies may use alternate definitions of EBITDA and FFO.

EBITDA is relevant to an understanding of the economics of the real estate business as it is a measure of the funds available from operations to service debt and satisfy certain fixed obligations. EBITDA should not be construed as an alternative to net income or FFO as an indicator of the Company's performance, or to cash flow from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Net operating income ("NOI") is the total of operating revenues less operating expenses.

The following table outlines our performance as measured by these key indicators:

	2002	2001
Revenue properties		
Office	$ 41,352	$ 35,231
Industrial	23,593	23,075
Retail	13,293	17,019
Other	299	743
Total revenue properties	78,537	76,068
Land	16,446	8,375
Housing and condominiums	4,921	2,123
Property management	846	3,649
Interest and other income	2,050	5,217
Net operating income	102,800	95,432
General and administrative expenses	6,856	8,352
EBITDA	95,944	87,080
Interest expense	37,055	35,884
Current income and large corporations taxes	2,750	2,417
Funds from operations	56,139	48,779
Depreciation and amortization	16,025	15,282
Future income tax	10,007	7,300
	30,107	26,197
Gain (loss) on sale and provision for diminution in value of assets	(18,275)	6,872
Net income	$ 11,832	$ 33,069
Net income per share		
Basic	$ 0.72	$ 1.75
Diluted	$ 0.69	$ 1.71
Funds from operations per share		
Basic	$ 3.42	$ 2.59
Diluted	$ 3.28	$ 2.52

Net operating income increased 7.7%, driven by strong results from revenue properties, land operations, and housing and condominiums that offset reductions in property management and interest and other income. EBITDA grew by 10.2%, largely as a result of the improvement in NOI and the significant decrease in general and administrative expenses. Funds from operations increased by 15.1%, due to the improvement in NOI and lower general and administrative expenses, offset by small increases in interest and current income and large corporations taxes expenses.

Since the Company's first full year of operations in 1996, diluted FFO per share has grown at a compounded annual rate of 39.8%. In 2002, diluted FFO per share climbed 30.2%. The difference between the percentage growth of FFO and FFO on a per share basis is due to our share repurchases over the last two years. During this time, we repurchased a total of 4,576,805 shares, or 22.8% of the shares that were outstanding at the end of 2000, at an average price of $14.87 per share. The diluted weighted average number of shares outstanding for the comparative years has declined by 11.4%, primarily as a result of our share repurchase initiatives.

Year-over-year net income declined 64.2%. The main reason for this change is a year-over-year swing of $25,147 in gain on sale and provision for diminution in value of assets. The 2002 provisions for diminution in value of assets included the write-down of three revenue properties totalling $16,800 and a $2,774 write-down of land held for development, compared to a total provision of $5,034 in 2001 for land held for development. Also, in 2001 we recorded a one-time gain of $14,084 on the sale of Residential Equities Real Estate Investment Trust (ResREIT) units, with no similar gain reported in 2002. Diluted net income per share also declined 59.6% in 2002; however, since 1996, diluted net income per share has increased at a compounded annual growth rate of 10.5%.

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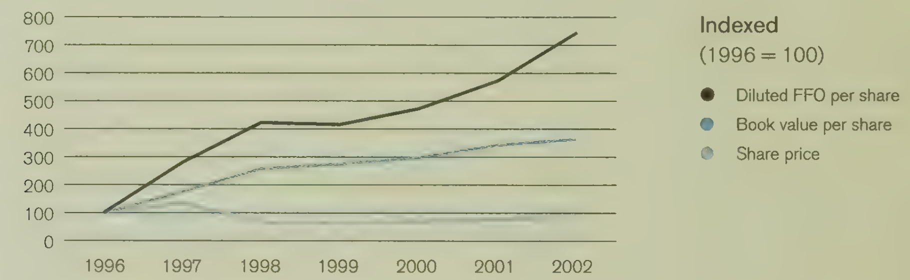
The chart below illustrates the comparable growth in diluted FFO and book value per share as well as the share price indexed to 1996 as the base year.



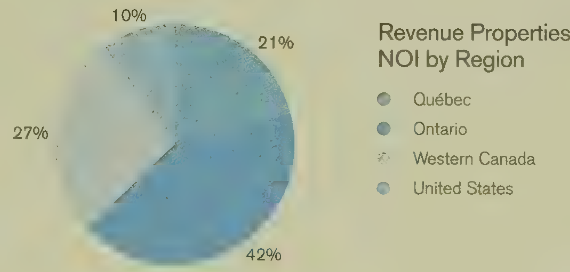
RESULTS OF OPERATIONS

Revenue Properties

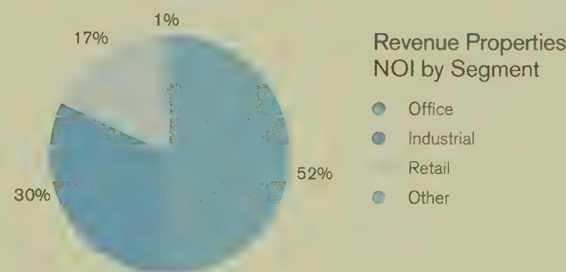
Revenue properties is our primary business unit and is divided into four distinct operating segments: office, industrial, retail and other.

The following tables show the distribution of the net operating income by geographic region and for each revenue properties operating segment:

	2002	2001	Growth Amount	Growth %
Québec	**$ 16,604**	$ 15,925	**$ 679**	**4**
Ontario	**33,017**	30,763	**2,254**	**7**
Western Canada	**21,473**	22,260	**(787)**	**(4)**
Total Canada	**71,094**	68,948	**2,146**	**3**
United States	**7,443**	7,120	**323**	**5**
Total	**$ 78,537**	$ 76,068	**$ 2,469**	**3**



	2002	2001	Growth Amount	Growth %
Office	**$ 41,352**	$ 35,231	**$ 6,121**	**17**
Industrial	**23,593**	23,075	**518**	**2**
Retail	**13,293**	17,019	**(3,726)**	**(22)**
Other	**299**	743	**(444)**	**(60)**
Total	**$ 78,537**	$ 76,068	**$ 2,469**	**3**



Total NOI from revenue properties increased 3.2%. The office segment showed the greatest improvement climbing $6,121 or 17.4%. Most of this increase is attributable to full-year contributions from State Street Financial Centre, the Roslyn Building and our increased ownership interests in Centennial Centre (from 50% to 100% in Q4 2001) and Capitol Square (from 75% to 83.6% in Q3 2001), as well as $2,745 in lease surrender payments recorded in 2002 compared to $675 in 2001.

The industrial segment NOI is up 2.2% over the prior year. Improved year-over-year results, particularly in Toronto and Montréal, are offset by $516 as a result of an Edmonton industrial building that was operational in 2001 but under development in 2002. The addition of the 10 Place du Commerce development is the key driver behind the improvement in Montréal, while Toronto's improvement is a result of rental uplifts achieved on leasing activity.

The retail segment NOI declined 21.9%. Property sales in 2002 and lease surrender payments received in 2001 resulted in year-over-year decreases of $1,056 or 6.2%, and $1,302 or 7.7%, respectively. The remainder of the decline was largely attributable to the impact of Wal-Mart leaving Northgate Mall. Zellers took occupancy of this space in Q3 2002 and results from this mall are projected to improve in 2003. NOI from the "other" segment decreased due to a $728 year-over-year swing in capital tax adjustments.

Comparative NOI is calculated to compare the performance of properties that were operational for the entire comparative periods. Properties under development, lease surrender payments and property acquisitions and dispositions in 2001 and 2002 are isolated for this purpose:

			Growth	
	2002	2001	Amount	%
Office	$ 30,848	$ 31,253	$ (405)	(1)
Industrial	23,392	22,342	1,050	5
Retail	13,059	14,524	(1,465)	(10)
Other	808	537	271	50
Total comparative properties	$ 68,107	$ 68,656	$ (549)	(1)
Under development	46	484	(438)	
Developed and operating	4,042	542	3,500	
Acquisitions	3,019	567	2,452	
Dispositions/other	561	3,784	(3,223)	
Lease surrenders	2,762	2,035	727	
Total	$ 78,537	$ 76,068	$ 2,469	3

NOI for the comparative revenue properties portfolio remained relatively unchanged in 2002.

The 1.3% reduction in NOI from the comparative office portfolio is largely a result of increased vacancies experienced in most regions.

The comparative industrial portfolio NOI improved 4.7%. Higher rates on new leases and renewals resulted in 8.6%, 5.5% and 2.3% increases in the Toronto, Western Canada and Québec industrial portfolios, respectively.

The lower comparative results in the retail segment are due to the change in contribution from Northgate Mall.

The "other" segment received a boost from the ski area operation, which benefited from heavy snowfall in November 2002, resulting in a $366 increase in NOI.

	Proportionate Gross Leasable Area (in square feet)				
	2002				2001
	Office	Industrial	Retail	Total	Total
Québec	755,121	2,818,893	–	3,574,014	3,571,113
Ontario	2,211,437	1,333,109	216,967	3,761,513	4,155,367
Western Canada	648,712	1,925,431	505,151	3,079,294	3,202,293
Total Canada	3,615,270	6,077,433	722,118	10,414,821	10,928,773
United States	33,414	–	878,026	911,440	904,857
Total at December 31, 2002	3,648,684	6,077,433	1,600,144	11,326,261	11,833,630
Total at December 31, 2001	3,808,754	6,128,446	1,896,430	11,833,630	

At December 31, 2002, Dundee Realty owned 11.3 million square feet of commercial revenue properties, down 4.3% from last year. Our retail disposition strategy accounts for 2.6% of the reduction in owned square footage, while 1.7% is a result of the sale of four office properties and our interests in two industrial properties.

We have a highly diversified tenant mix and minimal exposure to any single tenant or related group of tenants. In terms of revenue, our largest tenant is the Government of Canada, which occupies 266,738 square feet of owned gross leasable area, and which generated $7,785 of base and recovery rent in 2002, equating to 4.7% of the total for revenue producing properties.

The lease maturity profile of the 11.1 million square feet of stabilized commercial revenue properties is as follows:

(in square feet)	Current Vacancy	Monthly Tenancies	2003	2004	2005	2006	2007+	Total
Office	252,952	63,881	498,631	484,308	470,531	399,771	1,478,610	3,648,684
Industrial	395,618	174,422	983,532	878,169	1,071,030	585,740	1,810,922	5,899,433
Retail	116,483	40,561	132,671	130,585	107,858	59,239	1,012,747	1,600,144
Total stabilized	765,053	278,864	1,614,834	1,493,062	1,649,419	1,044,750	4,302,279	11,148,261
Percentage	6.9%	2.5%	14.5%	13.4%	14.8%	9.4%	38.6%	100%
Non-stabilized								178,000
Total								11,326,261

Approximately 42.7% of our leases will be maturing during the next three years. When this is added to current vacancy and monthly tenancies, about 5.8 million square feet or 52.0% of the stabilized portfolio will be available for renewal or re-leasing prior to the end of 2005.

On a segmented basis, the percentage of occupied and committed space across our stabilized commercial revenue properties portfolio is as follows:

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	2002	2001
Office	**93.1%**	94.5%
Industrial	**93.3%**	94.8%
Retail	**92.7%**	91.0%
Overall	**93.1%**	94.1%

In the view of management, market rates exceed our average in-place contract rents by approximately 14%, and we believe we will have an opportunity to capture uplifts in rents with renewals and new leasing. Therefore, while we anticipate that the current economic environment will result in a modest increase in overall portfolio vacancy in 2003, we are optimistic that our portfolio will still produce increased revenue property NOI.

Land Development

Net operating income almost doubled in 2002 compared to 2001, with all four regions producing strong results.

	2002			2001			
	Gross Revenue	Cost of Sales	Net Operating Income	Gross Revenue	Cost of Sales	Net Operating Income	Change in Net Operating Income
Single family lots:							
Saskatoon	$ 8,815	$ 7,408	$ 1,407	$ 5,281	$ 4,391	$ 890	$ 517
Regina	7,171	5,989	1,182	4,138	3,743	395	787
Edmonton	20,441	15,957	4,484	13,081	10,695	2,386	2,098
Calgary	19,571	12,821	6,750	9,131	6,468	2,663	4,087
Total single family lots	55,998	42,175	13,823	31,631	25,297	6,334	7,489
Parcels	10,340	7,717	2,623	8,079	6,038	2,041	582
Total	$ 66,338	$ 49,892	$ 16,446	$ 39,710	$ [illegible]	$ [illegible]	$ 8,071

During the year, 992 single family lot sales (2001 – 664) and 41 acres of parcel sales (2001 – 91) were recorded. The volume analysis and backlog of sales (lots under option) is as follows:

	2002			2001			Change	
	Sold	Average Selling Price	Under Option at Year End	Sold	Average Selling Price	Under Option at Year End	Sold	Under Option at Year End
Single family lots:								
Saskatoon	**205**	**$ 43**	**64**	131	$ 40	35	**74**	**29**
Regina	**197**	**36**	**119**	120	34	29	**77**	**90**
Edmonton	**393**	**52**	**117**	296	44	150	**97**	**(33)**
Calgary	**197**	**99**	**60**	117	78	16	**80**	**44**
Total single family lots	**992**	**$ 56**	**360**	664	$ 48	230	**328**	**130**
Parcels (acres)	**41**	**$ 254**	**29**	91	$ 89	13	**(50)**	**16**

In Saskatoon, the lot sales volume increased by 56.5% and net operating income by 58.1%. Market demand was exceptional throughout 2002 as external builders committed to the lots to secure inventory for the near future.

In Regina, NOI increased 199.2%. A 64.2% increase in the lot sales volume – most notably in the Wascana View and Lakeridge subdivisions – together with an increase in the average selling price, are the main drivers behind this positive result. We expect this trend to continue into 2003. Lots under option are up by over 300% at year end because of strong external sales commitments and a high level of internal housing pre-sales.

Sales volume is up 32.8% across all active subdivisions in Edmonton. This increase, combined with 18.2% growth in the average selling price, resulted in an 87.9% increase in NOI.

In Calgary, the first phase of the new Wentworth subdivision was brought to market, resulting in a 68.4% increase in sales volume. This change, combined with increased margins and selling prices, resulted in NOI growth of 153.5% from this region. Only two lots remain unsold in our Springside development.

NOI from parcel sales increased by 28.5%, despite a 54.9% reduction in the overall acreage sold, due to 18.1 acres of parcel sales in Edmonton (2001 – 53.24) and 7.9 acres in Calgary (2001 – 0) that pushed the average selling price per acre up to $254 (2001 – $89).

During 2002, the Company's activities included the development of 1,057 lots (2001 – 958). The continuity of the lot inventory is summarized as follows:

	Lot Inventory at December 31, 2001	Lots Developed in 2002	Lots Sold in 2002	Net Lots Transferred to Housing and Condominium Operations	Lot Inventory at December 31, 2002
Saskatoon	108	**225**	**(205)**	**(11)**	**117**
Regina	158	**221**	**(197)**	**(18)**	**164**
Edmonton	178	**467**	**(393)**	**–**	**252**
Calgary	61	**173**	**(197)**	**–**	**37**
Toronto	200	**–**	**–**	**(67)**	**133**
Total	705	**1,086**	**(992)**	**(96)**	**703**

Development progressed significantly in the Thornhill Woods neighbourhood in Toronto. Lot sales for this project remain on target for completion by 2005.

Housing and Condominiums

The following table summarizes the operating performance of the housing and condominium construction activities:

	2002			2001			
	Gross Revenue	Cost of Sales	Net Operating Income	Gross Revenue	Cost of Sales	Net Operating Income	Change in Net Operating Income
Saskatoon	$ 10,086	$ 10,063	$ 23	$ 8,694	$ 8,949	$ (255)	$ 278
Regina	8,372	8,588	(216)	6,464	6,852	(388)	172
Beaver Creek	36,397	31,251	5,146	23,378	20,474	2,904	2,242
Toronto	14	46	(32)	–	138	(138)	106
Total	$ 54,869	$ 49,948	$ 4,921	$ 38,536	$ 36,413	$ 2,123	$ 2,798

The volume of homes sold and occupied during the year and the backlog of uncompleted agreements (pre-sold units under construction) is summarized as follows:

	2002				2001			
	Number of Units Sold	Average Selling Price	Inventory at Year End	Uncompleted Pre-sold Units at Year End	Number of Units Sold	Average Selling Price	Inventory at Year End	Uncompleted Pre-sold Units at Year End
Saskatoon	59	$ 195	18	25	52	$ 176	18	12
Regina	66	156	19	30	53	150	19	10
Beaver Creek	12	3,033	3	–	13	1,798	10	5
Toronto	–	–	31	279	–	–	5	167
Total	137	$ 425	71	334	118	$ 343	52	194

Net operating income from this segment grew by 131.8% to $4,921. Increases in NOI are recorded in all regions; however, the main driver is the considerable increase in the average selling price of the condominium units in Beaver Creek.

The overall NOI from Saskatoon improved due to 13.5% growth in sales volume and a 10.8% increase in the average selling price. In Regina, the sales volume increased by 13 units and the average selling price by 4.4%. We anticipate this strong sales activity to continue into Q1 2003. Both of these housing operations remain instrumental in facilitating lot sales for their respective land divisions.

Thornhill Woods accounts for 67 of the uncompleted pre-sold units in Toronto at year end. Phase I is sold out.

The remaining inventory and uncompleted pre-sold units in Toronto represent our 50% interest in a joint venture with Intracorp Development Corporation to construct a 45-storey condominium and hotel project called Pantages Tower. Pantages consists of 484 condominium units and 100 hotel units. A second 21-storey tower, which we expect to complete in 2004, consists of 150 condominium units and is being marketed under the name Opus.

Property Management

Our property management revenue consists of management fees, leasing and construction fees, real estate advisory fees and land development management fees earned from third-party property owners. The costs allocated to the management, leasing and commercial fee business consist of property management expenditures associated with all personnel and facilities involved in the provision of such services. We charge market rate fees for management services provided to our owned properties, which are allocated as an operating expense to individual properties. This fee revenue is then deducted from the property management costs to arrive at the net costs associated with third-party management. The following table summarizes the NOI for these activities:

	2002	2001	Change	%
Revenue	$ 1,729	$ 6,326	$ (4,597)	(73)
Costs	883	2,677	1,794	67
Total	$ 846	$ 3,649	$ (2,803)	(77)

Gross revenue from property management is down $4,597 or 72.7%; however, this is partially offset by a $1,794 or 67.0% decline in costs. The sale of Dundee Greenwin Advisor in June 2001 accounted for $2,488 or 54.1% of the decline in gross revenue and virtually the entire decline in costs. Construction and leasing fees decreased by $1,755 and $556, respectively – largely resulting from the completion of the State Street Financial Centre in 2001 – but management fees increased by $359.

Interest and Other Income

Interest and other income consists of interest earned on surplus cash and interest bearing amounts receivable that we may have from time to time, as well as the return received on various portfolio investments:

	2002	2001
Gain on sale of LT Greenwin Property Management Inc.	$ 1,004	$ –
Interest income	1,000	1,199
Distributions from ResREIT	–	1,918
Gain on sale of Dundee Greenwin Advisor	–	1,756
Profit participation for sale of managed revenue properties	–	1,048
Provision for loans receivable	–	(773)
Other	46	69
Interest and other income	$ 2,050	$ 5,217

Interest and other income is impacted by a number of significant transactions that took place during 2001 and 2002:

- In Q2 2002, we sold our 50% interest in LT Greenwin Property Management Inc. for a gain of $1,004;
- Interest income was higher in 2001 due to larger investment balances during the year;
- In the first nine months of 2001, we recognized $1,918 in distributions from our investment in ResREIT. This investment was subsequently sold in Q3 2001 and therefore no distributions were received during the year; and
- In Q2 2001, we sold our 50% interest in Dundee Greenwin Advisor for a net gain of $1,756.

Interest Expense

Interest expense increased $1,171 or 3.3% in 2002. Higher average debt levels stemming from refinancing efforts in 2002 account for an increase of $1,481, and an additional $1,890 is attributable to reduced capitalization of interest to revenue properties and land and housing under development. These increases are offset by lower interest rates achieved on refinancings and floating rate debt.

The analysis of capitalized interest is outlined in the following table:

	Revenue Properties	Land	Housing and Condominiums	Total
Interest capitalized in 2002	$ 176	$ 1,271	$ 1,717	$ 3,164
Capitalized interest expensed to cost of sales during 2002	–	(1,275)	(495)	(1,770)
Net capitalized interest	**$ 176**	**$ (4)**	**$ 1,222**	**$ 1,394**

The interest capitalized to revenue properties represents $176 in respect of the redevelopment of the State Street Financial Centre.

The interest capitalized to housing and condominiums includes $1,234 capitalized to Pantages Tower in Toronto, and $184 to Firelight Lodge in Beaver Creek.

Depreciation and Amortization

Depreciation and amortization increased by 4.9%. The change in accounting policy regarding goodwill, described in Note 2 to the financial statements, resulted in a $1,809 reduction in amortization in 2002. Adjusted for this change, depreciation and amortization actually increased by $2,552 or 18.9%. Most of this is due to a $914 increase in amortization of deferred leasing costs. Significant leasing activity over the last two years accounts for $742 of this increase, while accelerated amortization resulting from lease surrender payments accounts for the remaining $172 increase. Building improvements, equipment purchases and leasehold improvements to space occupied by Dundee Realty Corporation are amortized on a straight-line basis, and account for $1,193 or 46.7% of the total increase in depreciation and amortization. Our investments in this area include new ski lift equipment at our ski area operation, and leasehold improvements and new equipment for new office space in the State Street Financial Centre. Base building costs are amortized on the sinking fund basis, which results in a 5% increase each year, accounting for the remainder of the increase. 25

General and Administrative Expenses

General and administrative costs are $1,496 or 17.9% lower than in 2001. Salaries and benefits are $586 lower in 2002 due to lower staffing levels and bonus payments. Professional and consulting fees declined $881 due to significant one-time expenses in 2001 and the negotiation of lower rates in 2002.

Gain (Loss) on Sale and Provision for Diminution in Value of Assets

The loss in 2002 is attributable to provisions for diminution in value of three revenue properties totalling $16,800 and a land parcel held for development in the amount of $2,774, offset by a $1,299 gain on sale of revenue properties. The $14,084 gain recorded in 2001 was a result of the sale of ResREIT units that was offset by $5,034 in provisions for diminution in value of land held for development, $991 in provisions for diminution in value of other investments and a $1,187 loss on sale of revenue properties.

Income and Large Corporations Taxes

The effective tax rate increased to 51.9% of pre-tax income (2001 – 22.7%). This increase is primarily due to a provision for the write-down of land held for development in 2002 for which the tax benefit has not been recognized, and one-time tax benefits recognized in 2001 related to U.S. tax losses, reductions in future Canadian tax rates and the non-taxable gain resulting from the sale of ResREIT units.

Dundee Realty is subject to large corporations taxes in Canada and corporate minimum tax in Ontario. We are not presently subject to income tax due to the application of loss carryforwards and other deductions. Under our existing corporate structure, the Company will become liable for current income tax in 2003.

Current income and large corporations taxes expense is as follows:

	2002	2001
Large corporations taxes	**$ 1,950**	$ 1,595
Corporate minimum tax	**800**	822
Current income and large corporations taxes	**$ 2,750**	$ 2,417

The provision for future income taxes includes a benefit for the reduction in future tax liabilities resulting from the decrease in tax rates expected to apply when the liabilities are settled. This reduction includes a non-recurring benefit related to those tax rate reductions substantially enacted.

The impact of these items on future income tax expense is as follows:

	2002	2001
Future income tax expense based on temporary differences arising (or reversing) during the year	$ 9,643	$ 15,775
Impact of reduction in future income tax rates enacted in the current year	–	(3,800)
Accounting losses for which the tax benefit has not been recognized	1,085	–
Recognition of U.S. tax loss carryforwards	–	(2,611)
Other	(721)	(2,064)
Future income tax expense	$ 10,007	$ 7,300

FINANCIAL CONDITION

Overview of Balance Sheets

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For the purposes of the following table, certain balance sheet accounts have been regrouped. Working capital is defined as amounts receivable and other assets, plus cash and short-term deposits, less amounts payable and accrued liabilities:

	2002	%	2001	%	Increase (Decrease)
Revenue properties	$ 885,521	82	$ 909,805	85	$ (24,284)
Land, housing and condominiums	141,400	13	123,135	12	18,265
Working capital	47,772	5	33,323	3	14,449
	$ 1,074,693	100	$ 1,066,263	100	$ 8,430
Debt	$ 581,375	54	$ 558,064	52	$ 23,311
Future income tax liability	56,207	5	46,025	5	10,182
Retained earnings and foreign currency translation adjustment	72,943	7	66,819	6	6,124
Share capital	364,168	34	395,355	37	(31,187)
	$ 1,074,693	100	$ 1,066,263	100	$ 8,430
Debt-to-equity ratio	1.33		1.21		

With the existence of fewer public real estate companies, large pension funds and real estate investment trusts have become more predominant in our industry. These types of competitors generally have a greater ability to raise equity, and also enjoy certain income tax advantages that are not available to a company such as ours. Given this uneven playing field and the increasing prices of real estate, we had few opportunities to acquire additional revenue producing properties in 2002. Instead, we continued to invest primarily in share repurchases, improving our existing revenue producing property assets, completing Pantages Tower and acquiring land held for development in Calgary. Leverage has been conservatively increased and unrestricted cash reserves are up $21,633.

Overview of Assets

The composition and geographic distribution of our operations remains the same as last year, with revenue properties representing our most significant asset segment.

The following table illustrates the geographic distribution of our assets:

	2002					2001	
	Revenue Properties	Land	Housing and Condominiums	Total	%	Total	%
Québec	$ 159,905	$ 1,500	$ –	$ 161,405	16	$ 162,283	16
Ontario	341,265	7,855	51,155	400,275	39	382,437	37
Western Canada	286,713	64,925	7,098	358,736	35	363,357	35
Total Canada	787,883	74,280	58,253	920,416	90	908,077	88
United States	97,638	175	8,692	106,505	10	124,863	12
Total at December 31, 2002	**$ 885,521**	**$ 74,455**	**$ 66,945**	**$ 1,026,921**	**100**	$ 1,032,940	100
Percentage	86%	7%	7%	100%			
Total at December 31, 2001	$ 909,805	$ 77,775	$ 45,360	$ 1,032,940			
Percentage	88%	8%	4%	100%			

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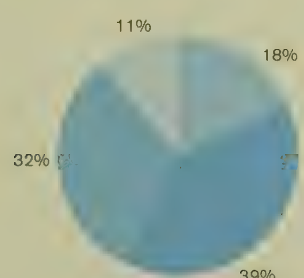
Revenue Properties

The book value of segmented revenue properties is geographically dispersed as follows:

	2002						2001	
	Office	Industrial	Retail	Other	Total	%	Total	
Québec	$ 53,710	$ 104,526	$ 1,669	$ –	$ 159,905	18	$ 160,783	18
Ontario	269,870	56,771	14,624	–	341,265	39	350,996	39
Western Canada	100,928	100,110	81,642	4,033	286,713	32	293,516	32
Total Canada	424,508	261,407	97,935	4,033	787,883	89	805,295	89
United States	3,651	–	82,412	11,575	97,638	11	104,510	11
Total at December 31, 2002	**$ 428,159**	**$ 261,407**	**$ 180,347**	**$ 15,608**	**$ 885,521**	**100**	$ 909,805	100
Percentage	48%	30%	20%	2%	100%			
Total at December 31, 2001	$ 438,457	$ 262,330	$ 196,623	$ 12,395	$ 909,805			
Percentage	48%	29%	22%	1%	100%			



Geographic Distribution of Revenue Properties by Book Value

- Québec
- Ontario
- Western Canada
- United States

The geographic distribution of our asset base remains unchanged relative to the prior year.

The reduced book value of the retail portfolio is the result of property sales and the write-down of three retail assets. The lower book value of the office portfolio is also as a result of the sale of properties. The "other" portfolio has increased in book value due to the addition of snow-making equipment at Arapahoe Basin, our ski area operation, and the fluctuation in exchange rates. Overall, the proportionate book value of our core portfolio of office and industrial properties has increased to 78% (2001 – 77%) of revenue properties.

Net Investment in Revenue Properties Before Financing

The following table illustrates our net property investment activities before financing:

	Office	Industrial	Retail	Other	Total
Revenue properties under development	$ 9,064	$ –	$ –	$ –	$ 9,064
Building improvements	3,126	4,257	2,065	4,360	13,808
	12,190	4,257	2,065	4,360	22,872
Acquisitions	23	686	206	–	915
Dispositions	(17,853)	(2,730)	(3,923)	(190)	(24,696)
Deferred leasing costs	3,343	1,755	5,235	–	10,333
Total	$ (2,297)	$ 3,968	$ 3,583	$ 4,170	$ 9,424

The investment in revenue properties under development represents the cash costs to complete the State Street Financial Centre.

Capital expenditures for revenue property building improvements and equipment were $13,808 (2001 – $12,708). These expenditures include both recurring items as well as one-time projects.

	2002				2001			
	Total Cost	Non-cash Adjustment	Financing	Net Cash	Total Cost	Non-cash Adjustment	Financing	Net Cash
Recurring	$ 4,688	$ 478	$ –	$ 5,166	$ 3,918	$ 409	$ –	$ 4,327
Non-recurring	7,932	710	161	8,481	8,148	233	1,869	6,512
Total	$ 12,620	$ 1,188	$ 161	$ 13,647	$ 12,066	$ 642	$ 1,869	$ 10,839

Non-recurring expenditures include $3,598 for the installation of snow-making facilities and equipment at Arapahoe Basin. An additional $2,429 (2001 – $870) was incurred to reconfigure an industrial building in Edmonton and $1,252 was spent to construct a new entranceway at Northgate Mall. Also included is the preliminary cost of a major exterior renovation for a Toronto office property that is estimated to cost $1,000 and is scheduled for completion in 2004.

A number of recurring property improvements, such as roof replacement and parking lot structural repair, were completed during the year. Such expenses are of a recurring nature, as a portion of the portfolio will be undergoing such improvements at any given time. We anticipate the cost of these building improvements to be approximately $5,000 in 2003.

In 2002, $10,333 was expended on inducements to attract or retain tenants. This amount includes $4,346 incurred in respect of a major tenancy at Northgate Mall. The amount of inducements varies from year to year depending on the maturity and termination of leases, existing vacancies and market requirements. The requisite capital for tenant inducements will be provided by funds from operations.

The Company disposed of nine revenue properties in 2002. The gain is summarized as follows:

	Proportionate Gross Leasable Area or Number of Units	Net Proceeds	Repayment of Mortgage or Term Debt	Gain (Loss) on Sale of Revenue Properties
Retail	**306,974 sq. ft.**	**$ 3,923**	**$ (3,303)**	**$ (1,005)**
Office	**175,126 sq. ft.**	**17,853**	**(5,956)**	**2,515**
Industrial	**72,223 sq. ft.**	**2,730**	**(2,177)**	**(267)**
Other	**2 units**	**190**	**–**	**56**
Total		**$ 24,696**	**$ (11,436)**	**$ 1,299**

Land

The locations of our land assets are as follows:

	2002					2001	
	Land Under Development	Land Held for Development	Land Held for Development (Acres)	Total	%	Total	
Saskatoon	**$ 3,528**	**$ 9,113**	**1,154**	**$ 12,641**	**17**	$ 13,537	17
Regina	**3,510**	**2,544**	**699**	**6,054**	**8**	7,125	9
Calgary	**4,187**	**13,171**	**414**	**17,358**	**23**	13,310	17
Edmonton	**9,185**	**19,687**	**605**	**28,872**	**39**	30,221	39
Toronto	**7,855**	**–**	**–**	**7,855**	**11**	9,082	12
Other	**–**	**1,675**	**278**	**1,675**	**2**	4,500	6
Total at December 31, 2002	**$ 28,265**	**$ 46,190**	**3,150**	**$ 74,455**	**100**	$ 77,775	100
Percentage	**38%**	**62%**		**100%**			
Total at December 31, 2001	$ 27,202	$ 50,573		$ 77,775			
Percentage	35%	65%		100%			

During the year, we invested $8,443 in the purchase of 99 acres of land in Calgary and $187 in a 6 acre site in Edmonton.

Housing and Condominiums

Our housing and condominium assets consist of:

	2002				2001	
	Construction in Progress	Lots Held for Future Construction	Total	%	Total	
Saskatoon	**$ 4,104**	**$ 5**	**$ 4,109**	**6**	$ 3,166	7
Regina	**2,989**	**–**	**2,989**	**4**	2,482	6
Beaver Creek	**6,040**	**2,652**	**8,692**	**13**	17,354	38
Toronto	**51,155**	**–**	**51,155**	**77**	22,358	49
Total at December 31, 2002	**$ 64,288**	**$ 2,657**	**$ 66,945**	**100**	$ 45,360	100
Total at December 31, 2001	$ 45,198	$ 162	$ 45,360			

The most significant components of the housing and condominium assets are condominiums located in Beaver Creek and Toronto.

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Overview of Liabilities and Equity

Our balance sheets reflect the following debt and equity structure:

	2002		2001		Change	
	Total	%	Total	%	Amount	%
Debt	$ 581,375	51	$ 558,064	50	$ 23,311	4
Amounts payable and accrued liabilities	61,729	5	51,908	5	9,821	19
Future income tax liability	56,207	5	46,025	4	10,182	22
Total liabilities	699,311	61	655,997	59	43,314	7
Shareholders' equity	437,111	39	462,174	41	(25,063)	(5)
Total	$ 1,136,422	100	$ 1,118,171	100	$ 18,251	2

The assets and liabilities components of the balance sheets remained relatively constant year-over-year. Debt showed an increase of $23,311 or 4.2% as we took advantage of locking in and renewing debt at historically low interest rates. Our debt-to-equity ratio remains conservative at 1.33:1.00. We reduced our capital base through the repurchase of shares; however, this reduction in shareholders' equity was partially offset by net income earned in 2002.

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Debt

Outstanding debt at year end is as follows:

	2002			2001		
	Fixed	Floating	Total	Fixed	Floating	Total
Mortgages payable	$ 433,276	$ 5,565	$ 438,841	$ 390,623	$ 34,956	$ 425,579
Term debt and bank loans	66,797	25,848	92,645	67,621	29,963	97,584
Land mortgages and housing advances	3,922	45,967	49,889	4,870	30,031	34,901
Total	$ 503,995	$ 77,380	$ 581,375	$ 463,114	$ 94,950	$ 558,064
Percentage	87%	13%	100%	83%	17%	100%

The changes in debt levels during 2002 are a result of the following items:

	Mortgages Payable	Term Debt	Bank Loans	Land Mortgages	Housing Advances	Total
Debt as at December 31, 2001	$ 425,579	$ 97,568	$ 16	$ 19,170	$ 15,731	$ 558,064
Acquisitions	–	495	–	–	–	495
New debt placed	107,746	6,042	–	16,964	38,270	169,022
Scheduled repayments	(12,108)	(1,677)	(16)	–	–	(13,801)
Repayment on revenue property dispositions	(1,647)	(9,789)	–	–	–	(11,436)
Lump sum repayments	(80,467)	–	–	(13,700)	(26,273)	(120,440)
Accrued interest and non-cash adjustment	218	6	–	–	(326)	(102)
Foreign exchange adjustment	(480)	–	–	–	53	(427)
Debt as at December 31, 2002	$ 438,841	$ 92,645	$ –	$ 22,434	$ 27,455	$ 581,375

In the first quarter, we completed the refinancing of a portfolio of 11 industrial buildings, located primarily in Montréal, which accounted for $38,000 of the new debt placed and $26,404 of the lump sum repayments. This refinancing replaced loans with a historic face rate of 8.75% and a marked-to-market rate of 7.00% with new 10-year mortgages at a face rate of 7.55%, and provided us with an additional $11,596 of leverage. In the second quarter, we extended a $21,387 mortgage maturing in 2002 for an additional

year and reduced the interest rate to 5.74% from 8.08%. In the third quarter, we negotiated an 11-year mortgage for $33,750 at a rate of 7.15%, and repaid $30,412 of interim construction financing for the State Street Financial Centre. We also negotiated a $2,000 five-year mortgage for an industrial building in Toronto at a rate of 6.14%; refinanced a Western Canada industrial building with an existing $2,262 loan at an interest rate of 7.25% with a new $3,000 five-year loan at an interest rate of 6.96%; and renewed the mortgage on our property in Saskatoon for $2,128 at prime +1%. In addition, we extended an $8,045 loan on the theatre at Greenbriar Mall for another year, now expiring in August 2003. In the fourth quarter, we refinanced an industrial building in Montréal, replacing a $2,262 loan at 7.25% with $3,000 in new five-year financing at 6.96%.

The proportion of variable interest rate debt to total debt decreased significantly to 13% (2001 – 17%). We maintain our strategy of fixing as high a proportion of our debt as possible to protect against interest rate volatility.

We have maintained our weighted average year-end interest rate at 7.0% (2001 – 7.0%) and extended the weighted average term to maturity to 48.5 months (2001 – 44.3 months). Without the marked-to-market adjustment, the weighted average interest rate dropped to 7.1% from 7.2%. The weighted average interest rate for the variable rate debt is 5.3% (2001 – 5.4%) and for the fixed rate debt is 7.3% (2001 – 7.3%). As of December 31, 2002, a 1% increase in interest rates would result in a $736 increase in interest expense and a $1,186 increase in cash interest paid.

We are confident in our ability to repay future debt maturities and principal repayments through a combination of debt refinancing and asset sales.

The land mortgages and housing advances represent development and construction loans arranged to facilitate our development activities. The amounts advanced under such loans are repaid out of the proceeds from the sale of single family lots, land parcels, single family homes or condominium units as related to the specific loan. As new developments are initiated, further loan facilities are arranged on a rolling basis. The amount reflected as maturing in 2002 represents repayments from sales that were anticipated to occur during the year.

At the end of 2002, we had operating debt facilities in the amount of $18,038, of which $3,608 was drawn in support of letters of guarantee.

Future Debt Maturities

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Shareholders' Equity

The Company's shareholders' equity includes $91,546 in contributed surplus. This amount results from the repurchase and cancellation of 9,749,372 common shares since 1998. Since our first normal course issuer bid in 1998, we have repurchased approximately 41% of the common shares outstanding. The contributed surplus represents the aggregate of the difference between the amount at which any given common share was repurchased, and the average book value of existing common shares at the date of repurchase.

Liquidity and Capital Structure

The nature of the real estate business is such that we require capital to fund non-discretionary expenditures with respect to existing assets, as well as growth through acquisitions and developments.

In 2002, we generated $56,139 of funds from operations (2001 – $48,779) and an additional $13,260 through the sale of revenue properties (2001 – $57,586 through the sale of portfolio investments and revenue properties). At year end, we had $31,028 (2001 – $8,692) in cash and short-term deposits.

Our intention is to meet short-term liquidity requirements through funds from operations, working capital reserves and operating debt facilities. We anticipate that revenues will continue to provide the cash necessary to fund operating expenses and debt service requirements. Funds from operations, together with cash on hand and operating debt facilities, will be sufficient to fund those recurring capital expenditures that are not recoverable from tenants and tenant inducements.

Capital for acquisitions, developments or redevelopments and share repurchases has been, and is expected to continue to be, obtained from equity or debt financing as well as funds from operations. Capital will also be generated through dispositions as we reposition our portfolio in a manner consistent with our stated strategy.

Our objective is to maintain a conservative level of debt while ensuring that sufficient capital is available to execute our business plan at all times. Our debt-to-equity ratio increased marginally to 1.33:1.00 (2001 – 1.21:1.00) as we took advantage of the opportunity to lock in the positive spread between the capitalization rate implicit in property valuations and prevailing long-term interest rates. We expect this opportunity will extend into 2003.

At the end of 2002, we had operating debt facilities in the amount of $18,038, of which $3,608 was drawn in support of letters of guarantee at year end. We are confident that arrangements will be made to refinance existing debt as it matures.

RISK MANAGEMENT

Real Property Development and Ownership

Real estate development and investment are generally subject to varying degrees of risk, depending on the nature of the property. Such risk includes changes in general economic conditions, local conditions, the attractiveness of properties to potential tenants or purchasers, competition from others with available space and the ability of the owner to economically provide adequate maintenance. The real estate industry is capital-intensive and therefore sensitive to interest rates and the availability of capital.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and other charges, must be made regardless of whether or not a property is producing sufficient income to service such cost. If we are unable to meet mortgage payments on any property, losses could be sustained as a result of a mortgagee's exercise of its rights of foreclosure or sale.

It is our intention to maintain as much of our debt as possible as non-recourse to the Company and stagger our debt maturities. We further mitigate our risk by owning a geographically diverse portfolio and maintaining a tenant mix that is not overly exposed to any single economic sector.

Illiquidity

Real estate is relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable, and a holder of real estate during a recessionary period may be faced with ongoing expenditures with a declining prospect of incoming receipts. Without adequate cash reserves, it may be necessary for the holder to dispose of properties below market prices. The volume of transactions increased in 2002, and with interest rates at historic lows and limited new supply, we expect reasonable activity in the market in 2003.

Construction Risk

We may choose not to develop land holdings we may have at any time due to, among other reasons, market conditions or the inability to raise the necessary funding for construction. If we continue or proceed with development of a land holding, properties under construction, or those that are to be constructed, it will be subject to risks. Such risks include lack of funding, variability in construction costs or unforeseeable delays, the failure of tenants to occupy and pay rent in accordance with existing lease agreements, and the failure of customers to complete transactions.

Financing

We may require additional financing in order to grow and expand our operations. It is possible that such financing will be unavailable or, if available, on unfavourable terms. In addition, upon the expiry of the term of the financing or refinancing of any particular property or operating debt facility, refinancing may not be available in the amounts required, or may be available only on terms less favourable to the Company than existing financing. Future financing may take many forms, including debt or equity financing, which could alter the current debt-to-equity ratio or which could be dilutive to shareholders.

It is our intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are staggered over several years, with limited exposure in any given year. We remain conservatively financed, with a debt-to-equity ratio below that of the industry average.

Environmental Matters

As an owner and manager of real property, we are subject to various federal, provincial and state laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal and remediation of certain hazardous toxic substances released on or in our properties, or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the ability to sell such real estate or to borrow using such real estate as collateral and, potentially, could also result in claims against the Company. In order to obtain financing for the purchase of a new property through traditional channels, we must normally arrange for an environmental audit to be conducted. Although such an audit provides both us and our lenders with some assurance, we may become subject to liability for undetected pollution or other environmental hazards on our properties against which we cannot insure, or against which we may elect not to insure where premium costs are disproportionate to our perception of relative risk.

We have formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

Property or Asset Management Agreements

Our property or asset management agreements may be terminated in accordance with the provisions of such agreements, and it is possible that they may not be renewed upon expiry. The potential for the termination of such property or asset management agreements is mitigated by a number of factors. We have an interest, as partial owner or mortgagee, in the majority of the properties we manage; therefore, the related agreements are less likely to be terminated.

Management endeavours to negotiate all agreements with long terms and automatic renewal options where possible, and to minimize the number of properties that are managed under contract for third parties.

Foreign Exchange Fluctuations

We maintain our accounts in Canadian currency. Certain of our properties are located in the United States. Accordingly, we will be subject to foreign currency fluctuations that may, from time to time, impact our financial position and results. However, we mitigate any such risk by matching revenue earned from properties located in the United States against U.S. liabilities in respect of such properties.

FUTURE IMPACT OF CHANGES IN ACCOUNTING RULES

1. Stock-based compensation

While no new options were issued in 2002, the options issued in January 2003 will require fair market value disclosure in 2003. Under existing accounting rules no compensation expense will be recorded for these options; however, we will disclose proforma net income and earnings per share based on the fair-value-based method for option accounting.

2. Accounting for the impairment and disposal of long-lived assets

This standard will be applicable for our 2004 fiscal year. Revenue properties that are determined by management to have a 50% probability of being sold below book value within 12 months, as well as meeting certain other criteria, will be written down to the net realizable value (calculated by estimating the future cash flows from the property and discounting these cash flows at a rate that includes an appropriate risk premium), as opposed to net recoverable amount (the undiscounted estimated future cash flow expected to be received from the ongoing use of the property) under the old rules. These assets will have to be reclassified as held for sale and presented as discontinued operations, and this change will have to be applied to comparative prior period statements.

CONCLUSIONS AND OUTLOOK

Looking forward to the commercial real estate landscape in 2003 we are cautiously optimistic. Although our occupancy levels have shown some erosion over the past year and may continue to soften slightly in the first half of 2003, the economy has shown improvement, so it is only a matter of time until the leasing market catches up. Having said that, one of the many strengths of our portfolio over the years has been the variance between our in-place rents and the market rents, and our ability to capture rental uplifts while maintaining the affordability of our buildings for our tenants. The end result is that even in a challenging market our buildings remain attractive and our revenues continue to grow.

We have said many times that our goal is to operate our business for the long term and to increase the value for our stakeholders. The pursuit of these goals is multi-faceted and includes examining alternative corporate strategies or structures. We currently have a proposal before our shareholders to reorganize the operating structure of Dundee Realty. Regardless of any changes, you can be assured that the fundamental principles that guide us in the operation of our business, and that have helped us to achieve our success to date, will remain the same.

Management's Responsibility for Financial Statements and Auditors' Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee Realty. These financial statements have been prepared in accordance with Canadian GAAP, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and internal control. The audit committee, which is comprised of directors, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditors. The audit committee reports its findings to the Board of Directors, which approves the consolidated financial statements.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee, with or without management present.

Michael J. Cooper
President and Chief Executive Officer

Toronto, Ontario
February 18, 2003

Jeff B. Barnes
Executive Vice-President and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Dundee Realty Corporation:

We have audited the consolidated balance sheet of Dundee Realty Corporation as at December 31, 2002 and the related consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2001 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 1, 2002.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
February 18, 2003

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands of dollars)	Note	2002	2001
Assets			
Revenue properties	3	**$ 885,521**	$ 909,805
Land	4	**74,455**	77,775
Housing and condominiums		**66,945**	45,360
Amounts receivable and other assets	5	**78,473**	76,539
Cash and short-term deposits		**31,028**	8,692
		$ 1,136,422	$ 1,118,171
Liabilities			
Debt	7	**$ 581,375**	$ 558,064
Amounts payable and accrued liabilities	8	**61,729**	51,908
Future income tax liability	15	**56,207**	46,025
		699,311	655,997
Shareholders' equity	9	**437,111**	462,174
		$ 1,136,422	$ 1,118,171

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See accompanying notes to the consolidated financial statements

On behalf of the Board:

Michael J. Cooper
Director

Ned Goodman
Chairman

CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31 (in thousands of dollars, except per share amounts)	Note	2002	2001
Revenue			
Revenue properties		$ 166,818	$ 159,997
Land		66,338	39,710
Housing and condominiums		54,869	38,536
Property management		1,729	6,326
Interest and other income		2,050	5,217
		291,804	249,786
Operating expenses			
Revenue properties		88,281	83,929
Land		49,892	31,335
Housing and condominiums		49,948	36,413
Property management		883	2,677
		189,004	154,354
Net operating income		102,800	95,432
Other expenses			
Interest	12	37,055	35,884
Depreciation and amortization	13	16,025	15,282
General and administrative		6,856	8,352
		59,936	59,518
Income before the undernoted		42,864	35,914
Gain (loss) on sale and provision for diminution in value of assets	14	(18,275)	6,872
Income before income and large corporations taxes		24,589	42,786
Income taxes			
Current income and large corporations taxes	15	2,750	2,417
Future income taxes	15	10,007	7,300
		12,757	9,717
Net income		$ 11,832	$ 33,069
Net income per share			
Basic	16	$ 0.72	$ 1.75
Diluted	16	$ 0.69	$ 1.71

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CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31 (in thousands of dollars)	Note	2002	2001
Retained earnings, beginning of year		$ 60,862	$ 27,793
Goodwill impairment losses	2	(4,851)	–
Net income		11,832	33,069
Retained earnings, end of year		$ 67,843	$ 60,862

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31 (in thousands of dollars, except per share amounts)	Note	2002	2001
Generated from (utilized in) operating activities			
Net income		$ 11,832	$ 33,069
Non-cash items:			
Depreciation and amortization		16,025	15,282
(Gain) loss on sale and provision for diminution in value of assets		18,275	(6,872)
Future income taxes		10,007	7,300
Funds from operations		56,139	48,779
Revenue properties deferred leasing costs		(10,333)	(6,798)
Development of land inventory		8,312	(810)
Development of housing and condominiums		(10,461)	(6,148)
Land mortgages	7	3,264	3,375
Housing advances	7	11,945	(1,059)
Change in non-cash working capital items		(4,991)	(7,565)
Acquisition of land under development		–	(2,200)
		53,875	27,574
Generated from (utilized in) investing activities			
Investment in revenue properties	3	(14,723)	(11,798)
Proceeds from sale of assets		13,260	5,087
Acquisition of revenue properties	3	(420)	(6,597)
Acquisition of land held for development	4	(8,680)	(3,511)
Proceeds from sale of portfolio investments		–	52,499
Acquisition of portfolio investments		–	(6,088)
		(10,563)	29,592
Generated from (utilized in) financing activities			
Mortgages	7	6,060	(5,903)
Term debt	7	4,365	11,229
Bank loans	7	(16)	(28,929)
Net change in common share equity	9	(31,385)	(38,437)
Restricted cash		(703)	1,670
		(21,679)	(60,370)
Increase (decrease) in cash and cash equivalents		21,633	(3,204)
Cash and cash equivalents, beginning of year		1,915	5,119
Cash and cash equivalents, end of year		23,548	1,915
Restricted cash	6	7,480	6,777
Cash and short-term deposits		$ 31,028	$ 8,692
Funds from operations per share			
Basic	16	$ 3.42	$ 2.59
Diluted	16	$ 3.28	$ 2.52

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

(All dollar amounts in thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA") and are substantially in accordance with the practices recommended by the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC").

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with the Company's proportionate share of the assets, liabilities, revenues and expenses of joint ventures in which it participates.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Revenue properties – Revenue properties are considered operational at the earlier of the achievement of a predetermined level of occupancy or at the expiry of a reasonable period following substantial completion. The Company has retained substantially all of the benefits and risks of ownership of its rental properties and therefore accounts for leases as operating leases.

Rental revenues include base rents, recoveries of operating expenses including property, capital and large corporations taxes, percentage participation rents, lease cancellation fees, parking income and incidental income. The total of the cash rents received for the initial term of the lease for free rent tenant inducements are recorded on a straight-line basis over this period. Leases, which include contractual increases in basic rents, are only accounted for on a straight-line basis when they exceed expected increases in the projected Consumer Price Index; otherwise basic rents are accounted for as they become due. Recoveries from tenants are recognized as revenues in the period in which the applicable costs are incurred. Percentage participation rents are recognized on an accrual basis once tenant sales revenues exceed contractual thresholds. The Company provides an allowance for doubtful accounts against that portion of accounts receivable which is estimated to be uncollectible. Such allowances are reviewed periodically based upon the recovery experience of the Company.

Revenue from the Arapahoe Basin ski area operation is recognized as earned with the exception of revenue from annual passes, which is deferred and amortized on a straight-line basis over the ski season.

Land – Revenue from the sale of developed sites and land sold to third parties is recognized at the time the agreement of purchase and sale is executed and unconditional, at least 15% of the sale proceeds has been received, and the collectibility of the remaining proceeds is reasonably assured.

Housing and condominiums – Revenue is recognized when ownership has been transferred to the purchaser and collectibility of the proceeds is assured.

Property management – Revenue is recognized when earned.

Revenue Properties

Revenue properties are stated at the lower of cost less accumulated depreciation, and the net recoverable amount. Revenue properties under development include interest on project-specific and general debt, property taxes, carrying charges and applicable general and administrative expenses incurred in the pre-development and construction periods, and initial leasing costs, less revenue earned prior to the project being declared operational. The net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the property, combined with its estimated residual value and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Buildings and improvements are depreciated using the sinking fund method. Under this method an amount, which increases at 5% per annum, is charged to income so as to fully depreciate the buildings and improvements over their estimated useful lives

of 30 to 40 years. Deferred leasing costs, which include leasehold improvements and tenant inducements, other than initial leasing costs, are depreciated on a straight-line basis over the term of the applicable lease. Pavement, ski area infrastructure, equipment and vehicles are depreciated on the declining balance basis over their estimated useful lives at 8% to 30% per annum.

Land, Housing and Condominiums

Land under development and housing and condominiums are stated at the lower of cost and net realizable value. Net realizable value is calculated by estimating the future cash flows from land under development and discounting these cash flows at a rate that includes a risk premium appropriate for a particular project. Land held for development is stated at the lower of cost and net recoverable amount.

Land – Land under development includes all related development costs, interest on property-specific and general debt, property taxes and applicable general and administrative expenses incurred during construction, less miscellaneous revenue earned during the construction period. The cost of sale is allocated to each lot based on the projected total estimated cost to develop the entire subdivision. Lot allocations are based on the individual lot's street frontage, divided by the total subdivision street frontage.

Land held for development includes acquisition costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for development. Land held for development is transferred to land under development when a subdivision or phase is commenced.

Housing and condominiums – This consists of housing and condominiums under construction, completed and held for sale and severed lots acquired from third parties held for development. Costs of these inventories include all related development costs, interest on project-specific and general debt, property taxes and applicable general and administrative expenses incurred during construction, less miscellaneous revenue earned during the construction period. The cost of sale is based on the total costs incurred up to the date of occupancy, plus a provision for costs to complete.

Foreign Currency Translation

The Company's foreign operations are considered financially self-sustaining and operationally independent. Accordingly, assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period. Translation gains and losses are deferred as a separate component of shareholders' equity until there has been a realized reduction in the underlying investment.

Foreign Currency Transactions

Monetary assets and liabilities to be settled in foreign currencies, which are not held in foreign self-sustaining operations, are translated into Canadian dollars using the year-end rate of exchange. Non-monetary assets, liabilities, revenues and expenses are translated at the rate in effect on the date of the transaction. Gains and losses are included in the consolidated statements of earnings. No such gains or losses were recorded in either 2002 or 2001.

Deferred Expenses

Deferred expenses may include:

- Debt issue expenses that are amortized on a straight-line basis over the term of the debt;
- Investigative and pre-development expenditures, which can include an allocation of general and administrative expenses incurred on specific potential projects. These costs are deferred until the project is either abandoned, at which time the costs are written off, or until the project proceeds to the construction stage, at which time the costs are capitalized to the project;
- Direct acquisition costs, which exclude general and administrative costs, are deferred until the acquisition is completed and the costs are capitalized to the acquisition, or the acquisition is abandoned and the costs are written off;
- Recoverable operating expenses, which are amortized over the period during which they are recoverable from tenants; and
- Non-recoverable major improvement expenditures, which are amortized over their expected useful lives.

Other Equipment

Other equipment consists of office premise improvements, furniture, computer equipment and vehicles, and are depreciated on the declining balance basis over their estimated useful lives at 20% to 30% per annum.

Goodwill

Goodwill is recorded at cost and represents the excess of the purchase price over the fair value assigned to the identifiable tangible net assets acquired. Prior to January 1, 2002 goodwill was amortized on a straight-line basis over 10 years. On January 1, 2002, the Company implemented the requirements of the new accounting standard for goodwill and intangible assets and ceased amortization of goodwill. Prior to January 1, 2002, the Company evaluated the carrying value of goodwill for permanent impairment on an ongoing basis and assessed the recoverability of this amount based on a review of future net operating income on a non-discounted basis. If impairment existed, the impairment was charged to net income. The implementation of the new policy is fully explained in Note 2.

Income Taxes

The Company uses the liability method of accounting for future income taxes. Net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of the Company's assets and liabilities and their carrying amounts for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes, that are more likely than not to be realized, are recognized as a reduction of the future income tax liability. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to a change in tax rates are recognized as income in the period when the tax rate change is substantively enacted. Note 15 includes additional information on the composition of income tax expense and future income tax liability.

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Funds from Operations

Funds from operations is calculated in accordance with CIPPREC recommendations and is considered to be a meaningful and useful measure of real estate operating performance. However, funds from operations does not represent cash flow from operations as defined by Canadian GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Company considers all short-term investments with maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes.

2. CHANGES IN ACCOUNTING POLICIES

Stock-based Compensation

Effective January 1, 2002, the Company adopted the new recommendations of the CICA relating to stock-based compensation on a prospective basis. The new standard requires the use of a fair-value-based method to account for certain stock-based compensation arrangements. Under this new standard the type of options previously granted by the Company under its Share Option Plan are not required to be accounted for using a fair-value-based method. Accordingly, there is no impact on the Company's consolidated balance sheets and statements of earnings. Where the fair-value-based method of accounting has not been used to account for employee stock options granted after January 1, 2002, the new standard requires companies to disclose proforma net income and proforma earnings per share. As there were no options issued during fiscal 2002, no fair value information is included in the additional disclosure in Note 10.

Goodwill

The CICA also issued a new accounting standard for goodwill and other intangible assets that is effective for 2002. Under this new standard, goodwill will no longer be amortized, but will be subject to a revised annual impairment test.

The Company had $4,851 of unamortized goodwill at December 31, 2001, related to the Camreal acquisition that occurred on April 28, 1998. Consistent with the new recommendations, the Company has revalued the remaining assets of Camreal on a discounted cash flow basis and has determined that the entire remaining amount of goodwill should be written off. This write-off is recognized as a change in accounting policy and, consistent with the transition rules, the prior year comparative statements have not been restated and the amount has been charged to opening retained earnings for 2002. The following table summarizes the proforma impact of these changes.

	2002	2001
Net income		
Reported net income	**$ 11,832**	$ 33,069
Goodwill amortization	**–**	1,809
Adjusted net income	**$ 11,832**	$ 34,878
Basic net income per share		
Reported net income	**$ 0.72**	$ 1.75
Goodwill amortization	**–**	0.10
Adjusted net income per share	**$ 0.72**	$ 1.85
Diluted net income per share		
Reported net income	**$ 0.69**	$ 1.71
Goodwill amortization	**–**	0.09
Adjusted net income per share	**$ 0.69**	$ 1.80

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3. REVENUE PROPERTIES

	2002	2001
Land	**$ 153,431**	$ 160,441
Building and building improvements	**732,501**	749,604
Equipment	**12,363**	8,179
Deferred leasing costs	**34,766**	26,875
	933,061	945,099
Accumulated depreciation	**(47,540)**	(35,294)
Total	**$ 885,521**	$ 909,805

	2002			2001		
	Total Cost	Financing	Net Cash	[illegible]	Financing	Net Cash
Investment in revenue properties						
Revenue properties under development	**$ 5,707**	**$ 7,988**	**$ (2,281)**	$ 19,782	$ 16,600	$ 3,182
Building improvements and equipment	**12,620**	**161**	**12,459**	12,066	1,869	10,197
	$ 18,327	**$ 8,149**	**$ 10,178**	$ 31,848	$ 18,469	$ 13,379
Adjustment for other non-cash items	**4,545**	**–**	**4,545**	(1,581)	–	(1,581)
Total	**$ 22,872**	**$ 8,149**	**$ 14,723**	$ 30,267	$ 18,469	$ 11,798
Acquisition of revenue properties	**$ 915**	**$ 495**	**$ 420**	$ 26,046	$ 19,449	$ 6,597

4. LAND

	2002	2001
Land under development	$ 28,265	$ 27,202
Land held for development	46,190	50,573
Total	$ 74,455	$ 77,775

	2002			2001		
	Total Cost	Financing	Net Cash	Total Cost	Financing	Net Cash
Acquisition of land held for development	$ 8,680	$ –	$ 8,680	$ 3,511	$ –	$ 3,511

5. AMOUNTS RECEIVABLE AND OTHER ASSETS

	2002	2001
Amounts receivable and deposits	$ 49,239	$ 42,424
Prepaid and deferred expenses	15,957	14,910
Loans receivable	7,492	7,237
Other equipment	4,959	6,279
Other investments	826	838
Goodwill	–	4,851
Total	$ 78,473	$ 76,539

Amounts receivable and deposits include billed credit adjustments of $1,287 (2001 – $2,016) and unbilled credit adjustments of $1,658 (2001 – $1,231). Other equipment is net of accumulated depreciation of $6,810 (2001 – $5,064). As disclosed in Note 2, all remaining goodwill was written off and charged to retained earnings in the first quarter of 2002. In 2001, goodwill was net of accumulated amortization of $3,640. In addition, goodwill totalling $7,891, representing the book value of certain management contracts, was allocated to the cost of sale of these contracts in 2001. The book value of the loans receivable and other investments approximates their estimated fair value at December 31, 2002 and 2001. Total U.S. dollar denominated amounts receivable and other assets are US$3,646 (2001 – US$3,320).

6. RESTRICTED CASH

Restricted cash represents cash securing letters of credit provided to various government agencies to support development activity, customer deposits on land, housing and condominium sales that close after year end and cash held as security for mortgages.

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7. DEBT

	2002	2001
Mortgages	$ 438,841	$ 425,579
Term debt	92,645	97,568
Bank loans	–	16
Land mortgages	22,434	19,170
Housing advances	27,455	15,731
Total	$ 581,375	$ 558,064

Mortgages include US$35,179 (2001 – US$35,979), and housing advances include US$384 (2001 – US$1,989) of debt securing assets located in the United States.

Mortgages and term debt are secured by charges on specific revenue properties. Bank loans are secured by general security agreements and mortgages on specific revenue properties. Land mortgages and housing advances are secured by charges on specific land and housing under development or land held for development.

The weighted average interest rates for the fixed and floating components of the debt are as follows:

	Weighted Average Interest Rates				
	2002	2001	Maturity Dates	2002	2001
Fixed rate					
Mortgages	7.28%	7.29%	2003 to 2013	$ 433,276	$ 390,623
Term debt	7.71%	7.74%	2003 to 2006	66,797	67,605
Bank loan	–	7.50%	–	–	16
Land mortgages	0.00%	0.00%	2017	3,750	3,750
Housing advances	6.50%	6.50%	2003	172	1,120
Total fixed rate	7.28%	7.30%		$ 503,995	$ 463,114
Variable rate					
Mortgages	5.89%	6.25%	2003	$ 5,565	$ 34,956
Term debt	5.53%	5.02%	2004	25,848	29,963
Land mortgages	5.18%	4.81%	2003	18,684	15,420
Housing advances	5.05%	5.00%	2003	27,283	14,611
Total variable rate	5.30%	5.44%		$ 77,380	$ 94,950
Total debt	7.02%	6.98%		$ 581,375	$ 558,064

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term Debt	Land Mortgages	Housing Advances	Total for Year
2003	$ 93,246	$ 1,902	$ 18,684	$ 27,455	$ 141,287
2004	70,230	90,182	–	–	160,412
2005	14,630	357	–	–	14,987
2006	47,130	204	–	–	47,334
2007	48,991	–	–	–	48,991
2008 and thereafter	164,614	–	3,750	–	168,364
Total	$ 438,841	$ 92,645	$ 22,434	$ 27,455	$ 581,375

Reconciliation of change in debt balances with net amounts reported on the statements of cash flows:

	Mortgages Payable	Term Debt	Bank Loans	Land Mortgages	Housing Advances	Total
Debt as at December 31, 2001	$ 425,579	$ 97,568	$ 16	$ 19,170	$ 15,731	$ 558,064
New debt placed	107,746	6,042	–	16,964	38,270	169,022
Lump sum repayments	(80,467)	–	–	(13,700)	(26,273)	(120,440)
Scheduled repayments	(12,108)	(1,677)	(16)	–	–	(13,801)
Acquisitions	–	495	–	–	–	495
Repayment on revenue property dispositions	(1,647)	(9,789)	–	–	–	(11,436)
Accrued interest and non-cash adjustment	218	6	–	–	(326)	(102)
Foreign exchange adjustment	(480)	–	–	–	53	(427)
Debt as at December 31, 2002	**$ 438,841**	**$ 92,645**	**$ –**	**$ 22,434**	**$ 27,455**	**$ 581,375**
Total change in debt balance	$ 13,262	$ (4,923)	$ (16)	$ 3,264	$ 11,724	$ 23,311
Less new debt related to acquisitions of revenue properties	–	(495)	–	–	–	(495)
Less new debt related to investments in revenue properties	(8,149)	–	–	–	–	(8,149)
Decrease (increase) in accrued interest and non-cash adjustment	(1,513)	(6)	–	–	326	(1,193)
Add debt allocated to proceeds from sale of assets	1,647	9,789	–	–	–	11,436
Add (less) foreign exchange adjustments	480	–	–	–	(53)	427
Add (less) marked-to-market adjustments	333	–	–	–	(52)	281
Change in debt per statements of cash flows	**$ 6,060**	**$ 4,365**	**$ (16)**	**$ 3,264**	**$ 11,945**	**$ 25,618**

	Mortgages Payable	Term Debt	Bank Loans	Land Mortgages	Housing Advances	Total
Debt as at December 31, 2000	$ 400,361	$ 89,040	$ 29,098	$ 15,795	$ 16,358	$ 550,652
New debt placed	63,460	99,477	–	13,249	16,109	192,295
Lump sum repayments	(41,384)	(87,147)	(28,752)	(9,874)	(17,059)	(184,216)
Scheduled repayments	(10,672)	(1,101)	(177)	–	–	(11,950)
Acquisitions	19,449	–	–	–	–	19,449
Repayment on revenue property dispositions	(9,037)	(2,558)	–	–	–	(11,595)
Accrued interest and non-cash adjustment	82	(143)	(159)	–	115	(105)
Foreign exchange adjustment	3,320	–	6	–	208	3,534
Debt as at December 31, 2001	$ 425,579	$ 97,568	$ 16	$ 19,170	$ 15,731	$ 558,064
Total change in debt balance	$ 25,218	$ 8,528	$ (29,082)	$ 3,375	$ (627)	$ 7,412
Less new debt related to acquisitions of revenue properties	(19,449)	–	–	–	–	(19,449)
Less new debt related to investments in revenue properties	(18,469)	–	–	–	–	(18,469)
Decrease (increase) in accrued interest and non-cash adjustment	(82)	143	159	–	(115)	105
Add debt allocated to proceeds from sale of assets	9,037	2,558	–	–	–	11,595
Add (less) foreign exchange adjustments	(3,320)	–	(6)	–	(208)	(3,534)
Add (less) marked-to-market adjustments	1,162	–	–	–	(109)	1,053
Change in debt per statements of cash flows	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

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The estimated fair value of the debt is as follows:

	2002	2001
Mortgages	$ 455,399	$ 435,997
Term debt	95,634	100,250
Bank loans	–	16
Land mortgages	18,895	16,599
Housing advances	27,454	15,731
Total	$ 597,382	$ 568,593

8. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

	2002	2001
Trade payables	$ 14,310	$ 12,529
Accrued liabilities and other payables	15,207	14,156
Deposits	15,050	12,786
Costs to complete land and housing developments	14,024	9,398
Deferred revenue	3,138	3,039
Total	$ 61,729	$ 51,908

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Deferred revenue represents unearned revenue for annual ski passes. Total U.S. dollar denominated amounts payable and accrued liabilities are US$3,039 (2001 – US$4,086).

9. SHAREHOLDERS' EQUITY

	2002	2001
Share capital	$ 276,042	$ 321,257
Directors' and officers' share purchase loans	(3,420)	(4,220)
Contributed surplus	91,546	78,318
Retained earnings	67,843	60,862
Foreign currency translation adjustment	5,100	5,957
Total	$ 437,111	$ 462,174

Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and preference shares issuable in series. The preference shares, of which none have been issued to date, will have such designations, rights, privileges, restrictions and conditions as the directors of the Company may determine.

Share Purchase Loans

Directors' and officers' share purchase loans total $3,420 (2001 – $4,220) of which $2,420 (2001 – $3,220) are non-interest bearing and the remaining $1,000 (2001 – $1,000) have a simple interest rate of 5% per annum. These loans have been deducted from shareholders' equity. The loans are secured by 236,425 common shares (2001 – 286,425) of the Company, representing an average issue price of $14.46 (2001 – $14.73) per share with a quoted value at December 31, 2002 of $15.45 (2001 – $13.50). The loans are repayable only if the directors or officers elect to sell their common shares, or if they leave the Company.

Share Repurchases

On November 7, 2002, the Company initiated its fifth normal course issuer bid. Under this bid, the Company has the right to purchase for cancellation up to 764,115 common shares (representing approximately 10% of the Company's public float). The bid started on November 12, 2002 and will remain in effect until the earlier of either November 12, 2003, or until the Company purchases the maximum number of shares permitted under the bid. As of February 18, 2003 no shares have been acquired under this bid.

On August 7, 2002, the Company completed its fourth normal course issuer bid, which was initiated on November 8, 2001. Under the bid, the Company had the right to purchase for cancellation up to 995,347 common shares (representing approximately 10% of the Company's public float) over the following 12 months through the facilities of the Toronto Stock Exchange ("TSX"). In total, the Company acquired 992,770 shares at an average price of $15.65 per share.

On August 8, 2002, the Company announced a substantial issuer bid to repurchase 1,500,000 of its common shares on a Dutch Auction basis at a price between $15.50 and $17.00 per share with the bid closing on October 10, 2002. The Company acquired all shares tendered under the bid, a total of 1,207,118 shares, at a purchase price of $17.00 per share.

On June 18, 2001, the common shares were consolidated on an 8 for 1 basis. Accordingly, all share information was restated.

The difference between the cost of shares purchased under an issuer bid and the average stated capital per share at the time of purchase is recorded as contributed surplus.

The capital structure of the Company is as follows:

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	Common Shares					
	Shares	Amount	Associated Issue Costs	Contributed Surplus	Net Cash Inflow (Outflow)	Average Price
As at December 31, 2000	20,066,676	$ 392,813	$ (8,659)	$ [illegible]	$ (16,245)	
Common shares acquired and cancelled under normal course issuer bids	(1,098,658)	(24,935)	(102)	10,216	(14,821)	$ [illegible]
Common shares acquired and cancelled under substantial issuer bid on October 9, 2001	(1,601,629)	(36,159)	(275)	14,537	(21,897)	[illegible]
Options exercised by issuance of shares	11,150	98	–	[illegible]	98	[illegible]
Options exercised for cash compensation	–			[illegible]	(42)	[illegible]
Cancellation and issuance of employees' and directors' loans	(62,500)	[illegible]		[illegible]	(1,000)	[illegible]
Share consolidation costs	–	[illegible]	[illegible]	[illegible]	(51)	[illegible]
Non-cash adjustment	–	[illegible]		[illegible]	(724)	
As at December 31, 2001	17,315,039	330.344	[illegible]	78,318	$ (38,437)	
Common shares acquired and cancelled under normal course issuer bid	**(669,400)**	**(15,876)**	**(34)**	**4,662**	**(11,248)**	**16.75**
Common shares acquired and cancelled under substantial issuer bid on October 11, 2002	**(1,207,118)**	**(28,822)**	**(175)**	**8,301**	**(20,696)**	**17.00**
Options exercised to acquire shares	**50,657**	**559**	**–**	**–**	**559**	**11.03**
Cancellation of employees' and directors' loans	**(50,000)**	**(1,220)**	**–**	**420**	**–**	**16.00**
Amortization of bonus shares	**–**	**353**	**–**	**(155)**	**–**	**15.45**
As at December 31, 2002	**15,439,178**	**$ 285,338**	**$ (9,296)**	**$ 91,546**	**$ (31,385)**	

10 SHARE-BASED COMPENSATION PLANS

The Company has three share-based compensation plans:

- A Share Option Plan under which 1,968,750 common shares are reserved for issue;
- A Share Purchase Plan under which 93,750 common shares are reserved for issue; and
- A Share Bonus Plan under which 62,500 common shares are reserved for issue.

The Company may not issue more than 10% of the outstanding common shares to insiders, or more than 5% to any single insider and his or her associates within any one-year period.

Share Option Plan

Subject to the requirements of the Share Option Plan, the directors of the Company have the authority to select those eligible participants to whom options will be granted, the number of options to be granted and the price at which common shares may be purchased. The exercise price for purchasing common shares cannot be less than the closing price of the common shares on the last trading day immediately preceding the date of the grant of the option. Each option, unless sooner terminated pursuant to the provisions of the Share Option Plan, will expire 10 years from the date the option was granted. Each option becomes exercisable, as to 33 1/3% of the common shares subject to such grant, on a cumulative basis at the end of each of the first, second and third years following the date of the grant of the option.

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Since the exercise prices of these options are fixed at the current market price when issued, and they can only be exercised by the issuance of shares upon receiving cash payment for the exercise price from the option holder, the exercise prices of these options are directly credited to equity when they are exercised, and no compensation expense is recorded on the date of grant.

The following table sets out the particulars of the share options outstanding:

	2002	2001
Outstanding, beginning of year	**1,293,456**	1,527,099
Issued during the year:		
Exercise price of $11.84	–	272,500
Exercise price of $12.00	–	330,000
Exercised during the year:		
Exercise price of $8.80 by issuance of shares	**(6,037)**	(11,150)
Exercise price of $11.20 for cash consideration	–	(16,157)
Exercise price of $11.20 by issuance of shares	**(34,624)**	–
Exercise price of $11.84 by issuance of shares	**(9,996)**	–
Cancelled during the year:		
Exercise price of $11.20	**(10,412)**	(11,460)
Exercise price of $11.84	**(20,004)**	(17,500)
Exercise price of $24.00	–	(779,876)
Outstanding, end of year	**1,212,383**	1,293,456
Exercised in January 2003:		
Exercise price of $11.20 by issuance of shares	**(5,412)**	
Exercise price of $11.84 by issuance of shares	**(833)**	
Issued in January 2003:		
Exercise price of $16.00	**698,875**	
Outstanding, February 18, 2003	**1,905,013**	

Share options outstanding have exercise prices and expiry dates as follows:

		2002		2001	
Exercise Price	Expiry Date	No. of Options Outstanding	No. of Options Exercisable	No. of Optio Outstanding	Exer
$ 8.80	October 23, 2006	**254,687**	**254,687**	260,724	260,724
9.36	August 24, 2010	**34,375**	**22,917**	34,375	11,458
11.20	September 14, 2009	**311,322**	**311,322**	356,358	237,572
11.84	January 23, 2011	**225,000**	**75,000**	255,000	–
12.00	November 7, 2011	**330,000**	**110,000**	330,000	–
14.80	December 3, 2006	**15,625**	**15,625**	15,625	15,625
18.40	February 5, 2007	**28,125**	**28,125**	28,125	28,125
24.00	December 8, 2007	**13,249**	**13,249**	13,249	13,249
Outstanding, end of year		**1,212,383**	**830,925**	1,293,456	566,753
Weighted average exercise price			**$ 11.09**		$ 10.81

Share Purchase Plan

The directors of the Company have the authority to select those directors, officers and employees who may participate in the Share Purchase Plan. Under this plan, a participant may contribute up to 10% of their basic annual remuneration on a quarterly basis 49 to be matched by the Company. Each participant will then be issued common shares having a value equal to the aggregate amount contributed by the participant and the Company. The purchase price per share will be the weighted average price of the common shares for the five trading days immediately preceding the issue of the common shares. Such common shares will be delivered to the participant 12 months following their date of issue.

To date, no common shares have been issued pursuant to the Share Purchase Plan.

Share Bonus Plan

The Share Bonus Plan permits the directors of the Company to issue common shares to employees and members of the Company's management and designated affiliates as a discretionary bonus. On January 31, 2002, 58,000 shares were committed under this plan, however, 2,000 of these share entitlements were forfeited in November 2002. These shares will be issued over four years commencing on January 31, 2003. The compensation expense will be recorded as earned over the four-year vesting period on a variable basis until the date the shares are granted. The expense is based on the quoted price of the Company's shares at the end of each period. Although no shares were issued in 2002, $198 was expensed.

11. JOINT VENTURES AND CO-OWNERSHIPS

The Company participates in incorporated and unincorporated joint ventures, partnerships and co-ownerships ("the joint ventures") with other parties and accounts for its interests using the proportionate consolidation method.

The following amounts represent the total assets and liabilities of the joint ventures in which the Company participates and its proportionate share of the assets, liabilities, revenues, expenses and cash flows therein:

	Total		Proportionate Share	
	2002	2001	**2002**	2001
Assets	**$ 519,348**	$ 621,645	**$ 210,486**	$ 216,333
Liabilities	**321,405**	272,368	**122,909**	86,762

	Proportionate Share	
	2002	2001
Revenues	**$ 37,089**	$ 33,094
Expenses	**41,785**	24,004
	$ (4,696)	$ 9,090
Cash flow generated from (utilized in):		
Operating activities	**$ 1,750**	$ (9,579)
Financing activities	**1,586**	10,749
Investing activities	**(1,586)**	(2,261)
Increase (decrease) in cash and cash equivalents	**$ 1,750**	$ (1,091)

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The Company is contingently liable for the obligations of the other owners of the unincorporated joint ventures in the aggregate amount of $151,647 (2001 – $120,167). In each case, however, the co-owner's share of assets is available to satisfy these obligations.

12. INTEREST

Interest incurred, capitalized and charged to earnings is recorded as follows:

	2002	2001
Interest expense incurred, at stated rate of debt	**$ 39,620**	$ 41,333
Amortization of deferred financing costs	**881**	659
Marked-to-market adjustment to rate	**(282)**	(1,054)
Interest capitalized	**(3,164)**	(5,054)
Interest expense	**$ 37,055**	$ 35,884

Certain debt assumed on acquisitions completed in prior years has been adjusted to fair value using the market interest rate at the time of the acquisition ("marked-to-market"). This marked-to-market adjustment is amortized to interest expense and principal repayments over the remaining life of the debt.

Interest capitalized includes interest on general and specific debt on revenue properties under development and interest capitalized on general and specific debt to land, housing and condominiums under development. Amounts capitalized to land, housing and condominiums flow through the cost of sales when the projects or units are sold.

Cash interest paid in the year is $39,721 (2001 – $41,438).

13. DEPRECIATION AND AMORTIZATION

	2002	2001
Depreciation of revenue properties	$ 8,607	$ 7,514
Depreciation of revenue properties deferred leasing costs	4,918	4,004
Depreciation of other assets and equipment	2,500	1,955
Amortization of goodwill	–	1,809
Total	$ 16,025	$ 15,282

14. GAIN (LOSS) ON SALE AND PROVISION FOR DIMINUTION IN VALUE OF ASSETS

	2002	2001
Gain (loss) on sale of revenue properties	$ 1,299	$ (1,187)
Provision for diminution in value of revenue properties	(16,800)	–
Provision for diminution in value of land held for development	(2,774)	(5,034)
Gain on sale of portfolio investment	–	14,084
Provision for diminution in value of other investment	–	(991)
Total	$ (18,275)	$ 6,872

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Provision for diminution in value of revenue properties in 2002 includes $9,470 for the write-down of a retail property located in the United States to its net recoverable amount of $10,434, and a $6,330 and $1,000 write-down for two Canadian retail properties to their respective net recoverable amounts of $6,320 and $5,813. The provision for diminution in value of land held for development is for property in the United States. The remaining net recoverable amount of this asset is $nil.

15. INCOME AND LARGE CORPORATIONS TAXES

	2002	2001
Income tax provision based on Canadian statutory tax rate of 39.1% (2001 – 42.0%)	$ 9,614	$ 17,970
Increase (decrease) in provision resulting from:		
Large corporations and corporate minimum taxes	2,750	2,417
Accounting losses for which the tax benefit has not been recognized	1,085	–
Benefit from decrease in expected future income tax rates	(721)	(5,864)
Non-taxable portion of capital gains	(304)	(3,137)
Other items	333	182
Benefit from previously unrecognized U.S. tax losses	–	(2,611)
Non-deductible amortization of goodwill	–	760
Total income tax provision	$ 12,757	$ 9,717

The Company has accumulated tax losses that are available to offset future taxable income, the benefit of which has been recognized in computing future income taxes. For Canadian income tax purposes, the Company and its subsidiaries have non-capital tax loss carryforwards of approximately $26,000 (2001 – $37,700), which begin to expire in 2005. For U.S. income tax purposes, the Company and its subsidiaries have net operating losses of approximately $3,000 (2001 – $4,600), which begin to expire in 2018. Cash paid for income and large corporations taxes in the year is $2,567 (2001 – $2,095).

Future income tax liabilities consist of the following:

	2002	2001
Future income tax liabilities related to differences in tax and book basis (net)	$ (66,607)	$ (60,925)
Future income tax assets related to tax loss carryforwards	10,400	14,900
Total future income tax liability	$ (56,207)	$ (46,025)

16. EARNINGS PER SHARE

The calculation of net income per share and funds from operations per share using the treasury stock method is explained in the following table:

	2002			2001		
	Income (Numerator)	Weighted Average Number of Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Average Number of Shares (Denominator)	Per Share Amount
Basic net income per share	$ 11,832	16,406,475	$ 0.72	$ 33,069	18,864,666	$ 1.75
Add non-cash items	44,307			15,710		
Basic funds from operations per share	56,139	16,406,475	3.42	48,779	18,864,666	2.59
Effect of dilutive securities:						
Shares securing directors' and officers' share purchase loans		284,637			279,756	
Bonus shares to be issued		51,284			–	
Incremental shares from the assumed conversion of share options with an exercise price below the average share price of $16.38 (2001 – $13.35)		388,978			194,783	
Diluted net income per share	11,832	17,131,374	0.69	33,069	19,339,205	1.71
Add non-cash items	44,307			15,710		
Diluted funds from operations per share	$ 56,139	17,131,374	$ 3.28	$ 48,779	19,339,205	$ 2.52

In 2002, 41,374 (2001 – 814,286) share options were excluded from the computation of diluted per share amounts because the exercise price of the share options was greater than the average market price of common shares during the year.

17. PENSION PLAN

The Company has a defined contribution pension plan available for all full-time employees who have been with the Company for one year or more. The Company's contributions and expenses under this plan were $288 in 2002 (2001 – $277).

18. SEGMENTED INFORMATION

The Company's reportable operating segments are composed of property management, land and housing operations and three different types of revenue properties.

The Company's revenue properties comprise its primary business unit and have been segmented into office, industrial and retail components because of the marketing, leasing and operating strategies unique to each.

The business unit that manages the land and housing operations is independent of the revenue property operations.

Management fees and related expenses for all properties managed on behalf of third parties are combined with acquisition and disposition transaction fees and related expenses, and are reported under the property management segment.

The accounting policies of the segments are as described in the summary of significant accounting policies. The Company does not allocate interest expense to these segments, since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, income taxes, general and administrative expenses, and corporate depreciation and amortization are not allocated to the operating segments. All inter-segment sales have been eliminated from the consolidated financial statements and the following tables.

A. By Activity

2002	Revenue Properties Office	Industrial	Retail	Other	Land	Housing and Condominiums	Property Management	Total
Operations								
Revenue	**$ 88,147**	**$ 38,686**	**$ 29,565**	**$ 10,420**	**$ 66,338**	**$ 54,869**	**$ 1,729**	**$ 289,754**
Operating expenses	**(46,795)**	**(15,093)**	**(16,272)**	**(10,121)**	**(49,892)**	**(49,948)**	**(883)**	**(189,004)**
Depreciation and amortization	**(6,585)**	**(3,659)**	**(2,606)**	**(1,395)**	**–**	**–**	**–**	**(14,245)**
Segment income	**$ 34,767**	**$ 19,934**	**$ 10,687**	**$ (1,096)**	**$ 16,446**	**$ 4,921**	**$ 846**	**$ 86,505**
Segment assets	**$ 428,159**	**$ 261,407**	**$ 180,347**	**$ 15,608**	**$ 74,455**	**$ 66,945**	**$ –**	**$ 1,026,921**
Capital expenditures								
Investment in revenue properties	**$ (4,203)**	**$ (4,257)**	**$ (2,065)**	**$ (4,198)**	**$ –**	**$ –**	**$ –**	**$ (14,723)**
Acquisition of revenue properties	**(23)**	**(191)**	**(206)**	**–**	**–**	**–**	**–**	**(420)**
Deferred leasing costs	**(3,343)**	**(1,755)**	**(5,235)**	**–**	**–**	**–**	**–**	**(10,333)**
Development of land and housing	**–**	**–**	**–**	**–**	**8,312**	**(10,461)**	**–**	**(2,149)**
Acquisition of land under development	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of land held for development	**–**	**–**	**–**	**–**	**(8,680)**	**–**	**–**	**(8,680)**
Total capital expenditures	**$ (7,569)**	**$ (6,203)**	**$ (7,506)**	**$ (4,198)**	**$ (368)**	**$ (10,461)**	**$ –**	**$ (36,305)**

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2001	Revenue Properties Office	Industrial	Retail	Other	Land	Housing and Condominiums	Property Management	Total
Operations								
Revenue	$ 77,241	$ 38,007	$ 34,015	$ 10,734	$ 39,710	$ 38,536	$ 6,326	$ 244,569
Operating expenses	(42,010)	(14,932)	(16,996)	(9,991)	(31,335)	(36,413)	(2,677)	(154,354)
Depreciation and amortization	(5,592)	(3,067)	(2,218)	(1,048)	–	–	–	(11,925)
Segment income	$ 29,639	$ 20,008	$ 14,801	$ (305)	$ 8,375	$ 2,123	$ 3,649	$ 78,290
Segment assets	$ 438,457	$ 262,330	$ 196,623	$ 12,395	$ 77,775	$ 45,360	$ –	$ 1,032,940
Capital expenditures								
Investment in revenue properties	$ (5,756)	$ (3,007)	$ (1,995)	$ (1,040)	$ –	$ –	$ –	$ (11,798)
Acquisition of revenue properties	(6,793)	196	–	–	–	–	–	(6,597)
Deferred leasing costs	(4,128)	(1,864)	(806)	–	–	–	–	(6,798)
Development of land and housing	–	–	–	–	(810)	(6,148)	–	(6,958)
Acquisition of land under development	–	–	–	–	(2,200)	–	–	(2,200)
Acquisition of land held for development	–	–	–	–	(3,511)	–	–	(3,511)
Total capital expenditures	$ (16,677)	$ (4,675)	$ (2,801)	$ (1,040)	$ (6,521)	$ (6,148)	$ –	$ (37,862)

B. By Country

2002	Canada	U.S.	Total
Operations			
Revenue	$ 230,735	$ 59,019	$ 289,754
Operating expenses	(143,024)	(45,980)	(189,004)
Depreciation and amortization	(11,826)	(2,419)	(14,245)
Segment income	$ 75,885	$ 10,620	$ 86,505
Segment assets	$ 920,416	$ 106,505	$ 1,026,921
Capital expenditures			
Investment in revenue properties	$ (9,837)	$ (4,886)	$ (14,723)
Acquisition of revenue properties	(420)	–	(420)
Deferred leasing costs	(9,799)	(534)	(10,333)
Development of land and housing	(11,252)	9,103	(2,149)
Acquisition of land under development	–	–	–
Acquisition of land held for development	(8,680)	–	(8,680)
Total capital expenditures	$ (39,988)	$ 3,683	$ (36,305)

2001	Canada	U.S.	Total
Operations			
Revenue	$ 199,344	$ 45,225	$ 244,569
Operating expenses	(119,512)	(34,842)	(154,354)
Depreciation and amortization	(10,078)	(1,847)	(11,925)
Segment income	$ 69,754	$ 8,536	$ 78,290
Segment assets	$ 908,077	$ 124,863	$ 1,032,940
Capital expenditures			
Investment in revenue properties	$ (9,068)	$ (2,730)	$ (11,798)
Acquisition of revenue properties	(6,597)	–	(6,597)
Deferred leasing costs	(6,720)	(78)	(6,798)
Development of land and housing	(3,838)	(3,120)	(6,958)
Acquisition of land under development	(2,200)	–	(2,200)
Acquisition of land held for development	(3,511)	–	(3,511)
Total capital expenditures	$ (31,934)	$ (5,928)	$ (37,862)

Reconciliations of segmented operating results and assets with consolidated net income and assets are as follows:

	2002	2001
Revenue		
From operating segments	$ 289,754	$ 244,569
Interest and other income	2,050	5,217
Total revenue	$ 291,804	$ 249,786

	2002	2001
Net income		
From operating segments	$ 86,505	$ 78,290
Interest and other income	2,050	5,217
Interest	(37,055)	(35,884)
Corporate depreciation and amortization	(1,780)	(3,357)
General and administrative	(6,856)	(8,352)
Gain (loss) on sale and provision for diminution in value of assets	(18,275)	6,872
Income and large corporations taxes	(12,757)	(9,717)
Total net income	$ 11,832	$ 33,069

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	2002	2001
Assets		
Segment assets	$ 1,026,921	$ 1,032,940
Amounts receivable and other assets	78,473	76,539
Cash and short-term deposits	31,028	8,692
Total assets	$ 1,136,422	$ 1,118,171

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For certain of the Company's financial instruments, including cash and short-term deposits, amounts receivable, amounts payable, accrued liabilities, land mortgages and housing advances, and bank indebtedness, carrying amounts approximate fair values due to their immediate or short-term maturity.

The fair value of debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent borrowing rates presently available to the Company for loans with similar terms and maturities. Specific fair values are disclosed in the related notes.

The Company has exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt amounts to 13% (2001 – 17%) of the Company's total debt. In order to manage exposure to interest rate risk, the Company endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The Company is exposed to foreign exchange risk as it relates to its self-sustaining U.S. operations due to fluctuations in the exchange rate between the Canadian and U.S. dollars. Changes in the exchange rate may result in a reduction or an increase in net income. The impact of foreign exchange fluctuations is deferred as a separate component of shareholders' equity until an investment has been liquidated. The Company mitigates this risk by matching foreign denominated debt with foreign assets.

The Company's assets are primarily office, industrial and retail revenue properties, land, housing and condominiums. Credit risk arises from the possibility that tenants in revenue properties and purchasers of land, housing or condominiums may not fulfill their lease or contractual obligations. Further risks arise in the event that borrowers default on the repayment of their loans to the Company. The Company mitigates its credit risks by attracting tenants and land buyers of sound financial standing, diversifying its mix of tenants and ensuring that adequate security has been provided in support of loans.

20. RELATED-PARTY TRANSACTIONS

During the current year, in the normal course of operation, the Company entered into the following transactions: agreements of purchase and sale for two condominium units with one member of executive management; and the sale of one condominium unit to one other member of executive management. All transactions are measured at the exchange amount agreed to by the parties. The Company funded $640 of the purchase price for the single condominium unit by way of an interest-free loan. This amount is included in amounts receivable at December 31, 2002. The sale of the condominium unit did not result in either a profit or loss to the Company.

21. COMMITMENTS AND CONTINGENCIES

The Company and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the Company.

The Company's estimated cost to complete land, housing and condominiums, and revenue properties under development is $26,505 (2001 – $20,500). The Company's commitments under land purchase agreements total $7,033 (2001 – $8,175). The total of these commitments accrued in amounts payable and accrued liabilities is $14,024 (2001 – $9,398). Of the total commitment of $33,538, $24,963 will be financed by debt, and the remainder will be financed by cash flows from operating activities.

The Company's annual commitments under capital and operating leases are as follows:

	Operating Lease Payments	Capital Lease Payments
2003	$ **1,446**	$ **906**
2004	**1,287**	**803**
2005	**1,187**	**777**
2006	**1,045**	**591**
2007	**1,023**	**340**
2008 and thereafter	**4,751**	**283**
Total	$ **10,739**	$ **3,700**

Capital lease assets have a gross cost, accumulated amortization and net book value of $8,829, $4,740, and $4,089 respectively (2001 – $8,621, $3,433 and $5,188). The total book value of the debt relating to capital lease assets is $3,167 (2001 – $4,049).

22. SUBSEQUENT EVENTS

Reorganization

In January 2003, the Company announced a proposal to reorganize the operating structure of Dundee Realty Corporation. The proposed new structure includes converting most of the Company's commercial real estate business (office, industrial and retail properties) into a real estate investment trust to be named Dundee Real Estate Investment Trust ("Dundee REIT"). As part of the proposal, the land and housing assets and certain other assets not appropriate for Dundee REIT, will become wholly owned by Dundee Bancorp Inc. and certain members of the Company's management. Dundee Realty Corporation will provide property management services to Dundee REIT.

In light of the foregoing, the Company will not be making any purchases under its normal course issuer bid referenced in Note 9 pending either the completion of the reorganization or a definitive determination not to proceed with the reorganization.

Sale of North City Shopping Centre

On February 18, 2003, the Company completed the sale of a property, which was written down to its net recoverable amount (see Note 14), for proceeds equal to its book value of $6,320. The sale of the property resulted in the repayment of $7,711 of related debt.

23. COMPARATIVE FIGURES

The 2001 comparative figures have been reclassified to conform to the current year's presentation.

Commercial Revenue Properties (as at December 31, 2002)

	Property	Owned Share of Total GLA in Square Feet	No. of Buildings
OFFICE	Suburban East Island	182,784	2
	Suburban Central	180,032	3
	Suburban South Shore	155,620	5
	Suburban West Island	236,685	8
	Total Montréal Office	**755,121**	**18**
	Downtown Ottawa	359,963	2
	Suburban Ottawa	322,295	4
	Total Ottawa Office	**682,258**	**6**
	Downtown Toronto	348,750	3
	Midtown Toronto	432,542	3
	Suburban North GTA	451,227	5
	Suburban West GTA	296,661	12
	Total Toronto Office	**1,529,180**	**23**
	Total Ontario Office	**2,211,437**	**29**
	Saskatoon	57,595	1
	Edmonton	172,826	1
	Calgary	204,694	2
	Vancouver	213,597	1
	Total Western Canada Office	**648,712**	**5**
	Total United States Office	**33,414**	**1**
	Total Office	**3,648,684**	**53**
INDUSTRIAL	Boucherville	71,592	2
	Brossard	141,555	4
	Dorval	575,233	13
	Laval	202,063	2
	Longueuil	256,393	7
	Montréal	226,460	2
	Pointe-Claire	55,333	1
	St-Laurent	1,290,264	17
	Total Montréal Industrial	**2,818,893**	**48**
	Brampton	382,370	7
	Burlington	81,776	1
	Markham	95,038	3
	Mississauga	413,784	10
	Toronto	212,110	1
	Vaughan	148,031	2
	Total Toronto Industrial	**1,333,109**	**24**
	Northwest	709,591	9
	Southeast	128,996	3
	Total Edmonton Industrial	**838,587**	**12**
	Central	263,115	10
	Foothills	495,178	8
	Northeast	328,551	8
	Total Calgary Industrial	**1,086,844**	**26**
	Total Industrial	**6,077,433**	**110**
RETAIL	Ontario	216,967	2
	Western Canada	505,151	4
	United States	878,026	2
	Total Retail	**1,600,144**	**8**
Total Revenue Property Portfolio		**11,326,261**	**171**

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